The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for January 1999

Budgetary deficit of $1.3 billion in January 1999

A budgetary deficit of $1.3 billion was recorded in January 1999, up $0.4 billion from the deficit of $0.9 billion recorded in January 1998. As indicated in last month's *Fiscal Monitor*, a deficit was expected in January 1999, given the flow of revenues.

Budgetary revenues were up $0.1 billion, or 0.7 per cent, in January 1999 on a year-over-year basis as higher personal income tax revenues, reflecting the strong growth in employment at the end of 1998, more than offset declines in corporate income tax revenues, goods and services tax (GST) revenues and non-tax revenues.

On a year-over-year basis, program spending was up $0.4 billion, or 4.9 per cent. This increase was primarily attributable to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, retroactive wage adjustments following the signing of a number of collective agreements and the timing of payments to Crown corporations.

Public debt charges were marginally higher, as a slight increase in the average effective interest rate offset a decline in interest-bearing debt.

Year-to-date: budgetary surplus of $10.4 billion

Over the first ten months (April to January) of the 1998-99 fiscal year, the budgetary surplus was estimated at $10.4 billion, up $1.2 billion from the surplus of $9.2 billion recorded in the same period of 1997-98, but down from the surplus of $11.7 billion to the end of December 1998. The year-over-year improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other nine months of 1998-99.

Economic developments over the balance of the current fiscal year are expected to lower the surplus to date by about $2 billion, primarily reflecting further declines in corporate income tax revenues and higher Equalization transfers. The 1999 budget announced initiatives totalling $4.2 billion which will be charged to 1998-99. In addition, the full cost of policy initiatives announced prior to the 1999 budget has yet to be reflected in the year-to-date results.

Taking all of these factors into consideration, a balanced budget, including the Contingency Reserve of $3 billion, is expected for 1998-99. To the extent that the Contingency Reserve is not required, it will be used to pay down debt.

The Fiscal Monitor

Table 1
Summary statement of transactions

	January		April to January	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	11,750	11,834	124,642	128,012
Program spending	-9,152	-9,599	-81,267	-82,997
Operating surplus	2,598	2,235	43,375	45,015
Public debt charges	-3,521	-3,537	-34,126	-34,595
Budgetary balance (deficit/surplus)	-923	-1,302	9,249	10,420
Non-budgetary transactions	2,529	2,447	-882	-2,204
Financial requirements/surplus (excluding foreign exchange transactions)	1,606	1,145	8,367	8,216
Foreign exchange transactions	-2,018	-3,841	5,972	-446
Net financial balance	-412	-2,696	14,339	7,770
Net change in borrowings	-1,658	-4,753	-14,513	-16,377
Net change in cash balances	-2,072	-7,449	-174	-8,607

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Over the April 1998 to January 1999 period, budgetary revenues were up $3.4 billion (2.7 per cent), program spending was up $1.7 billion (2.1 per cent), while public debt charges were $0.5 billion (1.4 per cent) higher, compared to the same period in 1997-98.

Within budgetary revenues:

- Personal income tax collections were up $2.5 billion, or 4.2 per cent. This was attributable to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. The overall growth in personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up $1.2 billion) and a net transfer of $0.7 billion to employment insurance premium revenues. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up $0.3 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up $0.3 billion, or 1.9 per cent. Although revenues were up strongly in the first eight months of this fiscal year, year-over-year declines have been reported in each of the last two months. Lower revenues are expected over the balance of the fiscal year, reflecting the decline in corporate profits in 1998. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial proportion of corporate income tax collections being

Table 2
Budgetary revenues

	January		April to January		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,552	6,066	61,069	63,610	4.2
Corporate income tax	1,759	1,594	14,895	15,181	1.9
Other income tax revenue	409	569	2,017	2,290	13.5
Total income tax	7,720	8,229	77,981	81,081	4.0
Employment insurance premium revenues	1,433	1,457	15,298	15,450	1.0
Excise taxes and duties					
Goods and services tax	1,202	1,022	16,744	17,370	3.7
Customs import duties	177	180	2,249	1,998	-11.2
Sales and excise taxes	700	746	7,354	7,166	-2.6
Total excise taxes and duties	2,079	1,948	26,347	26,534	0.7
Total tax revenues	11,232	11,634	119,626	123,065	2.9
Non-tax revenues	518	200	5,016	4,947	-1.4
Total budgetary revenues	11,750	11,834	124,642	128,012	2.7

received in the months of February and March, ranging from 25 to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February/March 1998) rising nearly 30 per cent over the 1997 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments to the end of November 1998 were increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. With the decline in corporate profits in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were up $0.2 billion, or 1.0 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting over-payments with respect to the 1996 taxation year, whereas in October 1998, there was a transfer from personal income tax revenues, due to under-payments with respect to the 1997 taxation year. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per $100 of insurable earnings) was reduced from $2.90 for 1997 to $2.70 for 1998 (with a corresponding decline in the employer rate). For 1999, the employee rate has been reduced to $2.55.

- Net GST revenues were up $0.6 billion, or 3.7 per cent. Monthly revenues to date continue to be extremely volatile, primarily due to the timing of refunds. Although gross collections have increased in line with the growth in consumer demand, larger increases in refunds and rebates have depressed the growth in net revenues.

- Customs import duties were down $0.3 billion, or 11.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down $0.2 billion, or 2.6 per cent, largely due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down $0.1 billion, or 1.4 per cent.

Within program spending:

- Major transfers to persons were up $0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly.

- Major transfers to other levels of government were up $0.2 billion, as higher fiscal transfers were partially offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement from falling below $12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up $1.0 billion, or 2.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up $0.2 billion. This increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, offset in part by the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. Payments to Crown corporations were up $0.1 billion. Operating and capital expenditures, including defence, were up $0.7 billion, or 3.3 per cent.

Public debt charges were up $0.5 billion, or 1.4 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of $8.2 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

Table 3
Budgetary expenditures

	January		April to January		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,863	1,897	18,437	18,904	2.5
Employment insurance benefits	1,178	1,162	9,225	9,263	0.4
Total	3,041	3,059	27,662	28,167	1.8
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	10,416	10,417	0.0
Fiscal transfers	810	862	7,759	8,045	3.7
Alternative Payments for Standing Programs	-180	-187	-1,784	-1,867	4.7
Total	1,672	1,717	16,391	16,595	1.2
Direct program spending					
Subsidies and other transfers					
Agriculture	136	46	543	520	-4.2
Foreign Affairs	205	280	1,319	1,267	-3.9
Health	52	87	660	808	22.4
Human Resources Development	124	305	1,129	1,685	49.2
Indian and Northern Development	233	160	3,174	3,167	-0.2
Industry and Regional development	88	113	1,181	1,168	-1.1
Veterans Affairs	116	116	1,139	1,140	0.1
Other	278	218	2,307	1,869	-19.0
Total	1,232	1,325	11,452	11,624	1.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	74	65	746	824	10.5
Canada Mortgage and Housing Corporation	100	180	1,403	1,490	6.2
Other	73	108	903	841	-6.9
Total	247	353	3,052	3,155	3.4
Operating and capital expenditures					
Defence	955	932	7,811	7,484	-4.2
All other departmental expenditures	2,005	2,213	14,899	15,972	7.2
Total	2,960	3,145	22,710	23,456	3.3
Total direct program spending	4,439	4,823	37,214	38,235	2.7
Total program expenditures	9,152	9,599	81,267	82,997	2.1
Public debt charges	3,521	3,537	34,126	34,595	1.4
Total budgetary expenditures	12,673	13,136	115,393	117,592	1.9
Memorandum item:					
Total transfers	5,945	6,101	55,505	56,386	1.6

Table 4

The budgetary balance and financial requirements/surplus

	January		April to January	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-923	-1,302	9,249	10,420
Loans, investments and advances				
Crown corporations	239	150	879	1,245
Other	121	71	72	-382
Total	360	221	951	863
Specified purpose accounts				
Canada Pension Plan Account	-184	744	-387	684
Superannuation accounts	354	360	2,410	3,319
Other	28	-5	-217	3
Total	198	1,099	1,806	4,006
Other transactions	1,971	1,127	-3,639	-7,073
Total non-budgetary transactions	2,529	2,447	-882	-2,204
Financial requirements/surplus (excluding foreign exchange transactions)	1,606	1,145	8,367	8,216
Foreign exchange transactions	-2,018	-3,841	5,972	-446
Net financial balance	-412	-2,696	14,339	7,770

Table 5

Net financial balance and net borrowings

	January		April to January	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Net financial balance	-412	-2,696	14,339	7,770
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds			16,888	5,972
Canada Savings Bonds	-364	526	-2,569	-1,623
Treasury bills	-1,400	-3,300	-28,000	-28,500
Other		-894	159	387
Subtotal	-1,764	-3,668	-13,522	-23,764
Less: Government's holding of unmatured debt	101	48	50	-432
Total	-1,663	-3,620	-13,472	-24,196
Payable in foreign currencies				
Marketable bonds		455	-126	9,681
Notes and loans	0	0	0	0
Canada bills	5	-1,588	-562	-787
Canada notes			-353	-1,075
Total	5	-1,133	-1,041	7,819
Net change in borrowings	-1,658	-4,753	-14,513	-16,377
Change in cash balance	-2,070	-7,449	-174	-8,607

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	January 31, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	11,834	-10,530
Interest and matured debt	10,419	9,610	-809
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	32,361	-11,339
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	120,775	3,318
Canada Pension Plan (net of securities)	4,205	4,890	685
Other pension and other accounts	5,872	5,875	3
Total pension and other accounts	127,534	131,540	4,006
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,055	5,472
Treasury bills	112,300	83,800	-28,500
Canada Savings Bonds	29,769	28,215	-1,554
Other	3,456	3,843	387
Subtotal	440,108	415,913	-24,195
Payable in foreign currencies	27,183	35,003	7,820
Total unmatured debt	467,291	450,916	-16,375
Total interest-bearing debt	594,825	582,456	-12,369
Total liabilities	638,525	614,817	-23,708
Assets			
Cash and accounts receivable	15,813	2,942	-12,871
Foreign exchange accounts	28,968	29,414	446
Loans, investments and advances (net of allowances)	14,036	13,173	-863
Total assets	58,817	45,529	-13,288
Accumulated deficit (net public debt)	579,708	569,288	-10,420

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $2.2 billion in the April 1998 to January 1999 period, up $1.3 billion from the net requirement in the same period of 1997-98. As a result, there was a financial surplus (excluding foreign exchange transactions) of $8.2 billion in the April 1998 to January 1999 period, down slightly from the $8.4 billion recorded in the same period of 1997-98.

Year-to-date: net financial balance of $7.8 billion/net borrowings down $16.4 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the April 1998 to January 1999 period, there was a net requirement of funds of $0.4 billion from foreign exchange transactions, compared to a net source of $6.0 billion in the same period of 1997-98. With a budgetary surplus of $10.4 billion, a net requirement of $2.2 billion from non-budgetary transactions and a net requirement of $0.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of $7.8 billion over the April 1998 to January 1999 period, compared to a surplus of $14.3 billion in the same period of 1997-98.

With this net financial balance, coupled with a reduction in cash balances of $8.6 billion, the government retired $16.4 billion of market debt in the April 1998 to January 1999 period. Cash balances at the end of January 1999 were $1.8 billion.

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A Publication of the Department of Finance

Highlights of financial results for February 1999

Budgetary surplus of $0.3 billion in February 1999

There was a budgetary surplus of $0.3 billion in February 1999, down nearly $2 billion from the surplus of $2.3 billion reported in February 1998. This year-over-year decline in the surplus was attributable to lower corporate income tax revenues and higher liabilities related to transfers to provinces under the Equalization program.

On a year-over-year basis, budgetary revenues declined $0.7 billion, primarily reflecting lower corporate income tax revenues. Corporations are required to make final settlement payments within 60 days of the end of their taxation year. Most large corporations' taxation year ends in December, which means that final settlements with respect to the taxation year just ended are received by Revenue Canada in late February and early March. With the decline in corporate profits in 1998, final settlement payments are correspondingly lower. Although personal income tax revenues were also lower, part of this decline was attributable to a transfer of funds to employment insurance premium revenues, relating to underpayments with respect to 1998. Gross personal income tax revenues include withholdings for employment insurance premiums, among others. Allocation to the various revenue components is based on estimates, with adjustments, as required, when new information becomes available.

This transfer more than explains the increase in employment insurance premium revenues. Goods and services tax (GST) revenues were up strongly, but this was largely attributable to the impact of slower processing of refunds in February 1999 due to labour disruptions.

Program spending was up $1.3 billion from February 1998, attributable to higher liabilities relating to Equalization entitlements to the provinces, both for 1998-99 and prior years. As noted in the 1999 budget, the higher entitlements resulted from data revisions based on recently received tax data. Direct program spending was unchanged.

Public debt charges were marginally lower, reflecting a decline in the stock of interest-bearing debt, as the average effective interest rate on that debt was unchanged.

Year-to-date: budgetary surplus of $10.8 billion

Over eleven months (April 1998 to February 1999), the budgetary surplus was estimated at $10.8 billion, down $0.8 billion from the surplus of $11.5 billion reported in the same period of 1997-98. The year-over-year decline in the surplus was largely due to higher liabilities related to Equalization entitlements to the provinces and lower corporate income tax revenues.

Table 1
Summary statement of transactions

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	15,234	14,540	139,875	142,556
Program spending	-9,559	-10,842	-90,815	-93,839
Operating surplus	5,675	3,698	49,060	48,717
Public debt charges	-3,386	-3,356	-37,512	-37,951
Budgetary balance (deficit/surplus)	2,289	342	11,548	10,766
Non-budgetary transactions	664	956	-227	-1,253
Financial requirements/surplus (excluding foreign exchange transactions)	2,953	1,298	11,321	9,513
Foreign exchange transactions	-4,941	1,814	1,031	1,368
Net financial balance	-1,988	3,112	12,352	10,881
Net change in borrowings	2,455	2,154	-12,057	-14,222
Net change in cash balances	467	5,266	295	-3,341

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

As noted in the 1999 budget, economic and policy developments over the balance of the year are expected to reduce the cumulative surplus to date. The 1999 budget announced initiatives totalling $4.2 billion which will be charged to 1998-99. In addition, the full cost of policy initiatives announced prior to the 1999 budget has yet to be reflected in the year-to-date results. Finally, based on the traditional timing of receipts and payments, the cumulative surplus is expected to be reduced by a further $2.5 billion over the balance of the current fiscal year.

Taking all of these factors into consideration, a balanced budget, including the Contingency Reserve of $3 billion, is expected for 1998-99. To the extent that the Contingency Reserve is not required, it will be used to pay down debt.

Over the April 1998 to February 1999 period, budgetary revenues were up $2.7 billion (1.9 per cent), program spending was up $3 billion (3.3 per cent), while public debt charges were $0.4 billion (1.2 per cent) higher, compared to the same period of 1997-98.

Within budgetary revenues:

- Personal income tax revenues were up $1.8 billion, or 2.6 per cent. This was due to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. However, the impact of these factors on the overall growth in personal income tax revenues has been dampened by higher refunds (up $1.2 billion)

Table 2
Budgetary revenues

	February		April to February		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	7,287	6,514	68,355	70,124	2.6
Corporate income tax	3,283	2,583	18,178	17,764	-2.3
Other income tax revenue	229	150	2,245	2,440	8.7
Total income tax	10,799	9,247	88,778	90,328	1.7
Employment insurance premium revenues	1,678	2,131	16,976	17,580	3.6
Excise taxes and duties					
Goods and services tax	1,807	2,152	18,551	19,522	5.2
Customs import duties	111	222	2,360	2,220	-5.9
Sales and excise taxes	611	608	7,965	7,775	-2.4
Total excise taxes and duties	2,529	2,982	28,876	29,517	2.2
Total tax revenues	15,006	14,360	134,630	137,425	2.1
Non-tax revenues	228	180	5,245	5,131	-2.2
Total budgetary revenues	15,234	14,540	139,875	142,556	1.9

and a net transfer of $1 billion to employment insurance premium revenues, relating to prior-year adjustments and underpayments with respect to the 1998 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up $0.4 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were down $0.4 billion, or 2.3 per cent. Throughout most of 1998-99, revenues were up strongly, reflecting the impact of remittance procedures and not necessarily underlying developments in corporate profits, as corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial proportion of corporate income tax collections being received in the months of February and March, ranging from 25 to 40 per cent of total collections for the year as a whole. With the decline in corporate profits in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were up $0.6 billion, or 3.6 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting

overpayments with respect to the 1996 taxation year, whereas in both October 1998 and February 1999, there were transfers from personal income tax revenues, due to underpayments with respect to previous taxation years. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per $100 of insurable earnings) was reduced from $2.90 for 1997 to $2.70 for 1998 (with a corresponding decline in the employer rate). For 1999, the employee rate has been reduced to $2.55.

- Net GST revenues were up $1.0 billion, or 5.2 per cent, broadly in line with the growth in the applicable tax base. Customs import duties were down $0.1 billion, or 5.9 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down $0.2 billion, or 2.4 per cent, largely due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down $0.1 billion, or 2.2 per cent.

Within program spending:

- Major transfers to persons were up $0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were virtually unchanged.

- Major transfers to other levels of government were up $1.4 billion, reflecting increased Equalization entitlements. As noted in the 1999 budget, data revisions, primarily resulting from much stronger economic growth in Ontario than in the Equalization-receiving provinces, resulted in large upward revisions to Equalization entitlements. These revisions relate to both 1998-99 and to prior years. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement from falling below $12.5 billion. In the 1999 budget, the federal government announced a one-time CHST supplement of $3.5 billion, which will be accounted for in 1998-99, following passage of enabling legislation.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up $1.0 billion, or 2.5 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were down $0.1 billion, primarily reflecting the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. Payments to Crown corporations were up $0.1 billion. Operating and capital expenditures, including defence, were up $1.0 billion, largely attributable to the impact of retroactive wage settlements.

Public debt charges were up $0.4 billion, or 1.2 per cent, as the decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt. The latter reflected not only a slight increase in interest rates but also changes in the composition of interest-bearing debt to longer-term maturities.

Table 3
Budgetary expenditures

	February		April to February		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,880	1,924	20,317	20,829	2.5
Employment insurance benefits	1,193	1,185	10,418	10,448	0.3
Total	3,073	3,109	30,735	31,277	1.8
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	11,458	11,458	0.0
Fiscal transfers	1,143	2,395	8,902	10,440	17.3
Alternative Payments for Standing Programs	-180	-187	-1,964	-2,054	4.6
Total	2,005	3,250	18,396	19,845	7.9
Direct program spending					
Subsidies and other transfers					
Agriculture	111	47	654	567	-13.3
Foreign Affairs	175	138	1,495	1,405	-6.0
Health	92	55	752	863	14.8
Human Resources Development	221	144	1,350	1,829	35.5
Indian and Northern Development	265	182	3,439	3,349	-2.6
Industry and Regional Development	202	224	1,382	1,392	0.7
Veterans Affairs	115	115	1,254	1,255	0.1
Other	238	218	2,545	2,087	-18.0
Total	1,419	1,123	12,871	12,747	-1.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	56	45	802	869	8.4
Canada Mortgage and Housing Corporation	125	135	1,528	1,625	6.3
Other	91	102	994	943	-5.1
Total	272	282	3,324	3,437	3.4
Operating and capital expenditures					
Defence	949	953	8,759	8,436	-3.7
All other departmental expenditures	1,841	2,124	16,730	18,097	8.2
Total	2,790	3,077	25,489	26,533	4.1
Total direct program spending	4,481	4,483	41,684	42,717	2.5
Total program expenditures	9,559	10,842	90,815	93,839	3.3
Public debt charges	3,386	3,356	37,512	37,951	1.2
Total budgetary expenditures	12,945	14,198	128,327	131,790	2.7
Memorandum item:					
Total transfers	6,497	7,482	62,002	63,869	3.0

Table 4

The budgetary balance and financial requirements/surplus

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,289	342	11,548	10,766
Loans, investments and advances				
Crown corporations	216	66	1,083	1,311
Other	-20	125	53	-257
Total	196	191	1,136	1,054
Specified purpose accounts				
Canada Pension Plan Account	42	555	-344	1,240
Superannuation accounts	252	324	2,662	3,643
Other	65	-1	-150	2
Total	359	878	2,168	4,885
Other transactions	109	-113	-3,531	-7,192
Total non-budgetary transactions	664	956	-227	-1,253
Financial requirements/surplus (excluding foreign exchange transactions)	2,953	1,298	11,321	9,513
Foreign exchange transactions	-4,941	1,814	1,031	1,368
Net financial balance	-1,988	3,112	12,352	10,881

Table 5

Net financial balance and net borrowings

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Net financial balance	-1,988	3,112	12,352	10,881
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,100	2,300	13,788	8,272
Canada Savings Bonds	-186	-201	-2,755	-1,825
Treasury bills	1,800	2,200	-26,200	-26,300
Other	-169	-279	-10	108
Subtotal	-1,655	4,020	-15,177	-19,745
Less: Government's holding of unmatured debt	94	558	145	127
Total	-1,561	4,578	-15,032	-19,618
Payable in foreign currencies				
Marketable bonds	2,906	-2,801	2,780	6,880
Notes and loans	0	0	0	0
Canada bills	1,110	377	548	-409
Canada notes			-353	-1,075
Total	4,016	-2,424	2,975	5,396
Net change in borrowings	2,455	2,154	-12,057	-14,222
Change in cash balance	467	5,266	295	-3,341

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	February 28, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	10,885	-11,479
Interest and matured debt	10,419	7,147	-3,272
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	28,949	-14,751
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	121,099	3,642
Canada Pension Plan (net of securities)	4,205	5,445	1,240
Other pension and other accounts	5,872	5,874	2
Total pension and other accounts	127,534	132,418	4,884
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	302,855	8,272
Treasury bills	112,300	86,000	-26,300
Canada Savings Bonds	29,769	28,071	-1,698
Other	3,456	3,564	108
Subtotal	440,108	420,490	-19,618
Payable in foreign currencies			
Marketable bonds	14,651	23,042	8,391
Canada bills	9,356	8,947	-409
Canada notes	3,176	590	-2,586
Subtotal	27,183	32,580	5,397
Total unmatured debt	467,291	453,070	-14,221
Total interest-bearing debt	594,825	585,488	-9,337
Total liabilities	638,525	614,437	-24,088
Assets			
Cash and accounts receivable	15,813	4,914	-10,899
Foreign exchange accounts	28,968	27,600	-1,368
Loans, investments and advances (net of allowances)	14,036	12,982	-1,054
Total assets	58,817	45,496	-13,321
Accumulated deficit (net public debt)	579,708	568,941	-10,767

Year-to-date: financial surplus of $9.5 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions.

The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $1.3 billion in the April 1998 to February 1999 period, up $1.0 billion from the net requirement in the same period of 1997-98. This increase primarily reflects increased payments to provinces under tax collection agreements, pertaining to underpayments relating to previous taxation years, and the payment to the Canada Millennium Scholarship Foundation, for which the liability had been established in 1997-98. These payments were, in part, offset by higher funds in the superannuation accounts, primarily relating to the transfer in 1997-98 to NAV CANADA, which dampened funds in 1997-98, and a higher source of funds in the Canada Pension Plan Account, reflecting the timing of receipts. As a result, there was a financial surplus (excluding foreign exchange transactions) of $9.5 billion in the April 1998 to February 1999 period, down slightly from the $11.3-billion surplus recorded in the same period of 1997-98.

Year-to-date: net financial balance of $10.9 billion/net borrowings down $14.2 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the April 1998 to February 1999 period, there was a net source of funds of $1.4 billion from foreign exchange transactions, compared to a net source of $1.0 billion in the same period of 1997-98.

With a budgetary surplus of $10.8 billion, a net requirement of $1.3 billion from non-budgetary transactions and a net source of funds of $1.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of $10.9 billion over the April 1998 to February 1999 period, compared to a surplus of $12.4 billion in the same period of 1997-98.

With this financial surplus, coupled with a reduction in cash balances of $3.3 billion, the government retired $14.2 billion of market debt in the April 1998 to February 1999 period. Cash balances at the end of February 1999 were $7.0 billion.

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April 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1999

Year-to-date: budgetary surplus of $9.1 billion

With a deficit of $1.7 billion in March 1999, the budgetary surplus over the 12 months (April 1998 to March 1999) was estimated at $9.1 billion, down slightly from the surplus of $9.2 billion reported in the same period of 1997-98. Budgetary revenues were up $2.8 billion, or 1.8 per cent, program spending was up $2.6 billion, or 2.5 per cent, while public debt charges increased $0.3 billion, or 0.8 per cent.

Final results to come in the fall

The financial results for the April 1998 to March 1999 period are not the final results for the 1998-99 fiscal year. Still to come are the "end-of-year accounting" adjustments.

Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1998-99. For example, the 1999 budget announcement of a one-time cash supplement of $3.5 billion to the Canada Health and Social Transfer (CHST) will be booked in the "end-of-year accounting" period, following passage of legislation. In addition, adjustments are made to include liabilities incurred by departments for goods and services received in late 1998-99 but for which payments were made in the April/May 1999 period. Based on previous years' experience, such adjustments could range between $2.5 and $3.5 billion. Together with the CHST cash supplement, this would reduce the surplus to the end of March 1999 by $6 to $7 billion.

These adjustments, coupled with expected developments in February and March 1999 and the inclusion of $3 billion for the Contingency Reserve, underlie the balanced budget estimate in the February 1999 budget for 1998-99.

However, budgetary revenues to the end of March 1999 were somewhat weaker than had been expected at the time of the 1999 budget. This is especially true for corporate income tax revenues, where higher-than-expected refunds in March 1999 will result in final collections coming in lower than estimated at the time of the budget. Unless there are offsetting adjustments in the other revenue components, once final adjustments are made for cash received in March but not deposited until April, budgetary revenues should be lower than estimated in the 1999 budget. Final audited results will be released in the fall.

Budgetary deficit of $1.7 billion in March 1999

There was a budgetary deficit of $1.7 billion in March 1999, down nearly $0.7 billion from the deficit of $2.3 billion reported in March 1998.

On a year-over-year basis, budgetary revenues increased $0.1 billion, as lower corporate income tax revenues, customs import duties and excise taxes and duties were more than offset by increases in the other major components.

- The decline in corporate income tax revenues was primarily due to refunds with respect to taxation year 1998, reflecting the decline in corporate profits.
- The decline in customs import duties reflected timing differences in the receipt of duties between the two periods, while the elimination of the Air Transportation Tax accounted for all of the decline in excise taxes and duties.

Table 1
Summary statement of transactions

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	12,752	12,868	152,627	155,425
Program spending	-11,590	-11,129	-102,417	-104,967
Operating surplus	1,162	1,739	50,210	50,458
Public debt charges	-3,505	-3,411	-41,016	-41,363
Budgetary balance (deficit/surplus)	-2,343	-1,672	9,194	9,095
Non-budgetary transactions	3,720	2,911	3,504	1,656
Financial requirements/surplus (excluding foreign exchange transactions)	1,377	1,239	12,698	10,751
Foreign exchange transactions	-3,186	-5,846	-2,155	-4,478
Net financial balance	-1,809	-4,607	10,543	6,273
Net change in borrowings	2,497	6,853	-9,562	-7,368
Net change in cash balances	688	2,246	981	-1,095

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- In contrast, personal income tax revenues increased $0.2 billion, or 7.3 per cent, reflecting gains in employment income, while non-tax revenues were up $0.4 billion, or 18.1 per cent, primarily due to higher Exchange Fund Account earnings.

Program spending was down $0.5 billion from March 1998. This was primarily attributable to lower transfer payments, in part due to the impact of one-time initiatives which affected the March 1998 results.

Public debt charges were $0.1 billion lower, reflecting a decline in the stock in interest-bearing debt as the average effective interest rate on that debt was unchanged.

Budgetary revenues up $2.8 billion in April 1998 to March 1999 period

On a year-over-year basis, budgetary revenues were up $2.8 billion, or 1.8 per cent, in the April 1998 to March 1999 period.

Within budgetary revenues:

- Personal income tax revenues were up $2.0 billion, or 2.8 per cent. This was due to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. However, the impact of these factors on the overall growth in personal income tax revenues has been dampened by higher refunds (up $1.2 billion) and a net transfer of $1 billion to employment insurance premium revenues, relating to prior-year adjustments and underpayments. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up $0.4 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.
- Corporate income tax revenues were down $1.0 billion, or 4.6 per cent, reflecting the impact of lower corporate profits in 1998.
- Employment insurance premium revenues were up $0.6 billion, or 3.4 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting overpayments with respect to the 1996 taxation

Table 2
Budgetary revenues

	March		April to March		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	3,169	3,400	71,524	73,525	2.8
Corporate income tax	3,088	2,525	21,267	20,289	-4.6
Other income tax revenue	261	452	2,506	2,892	15.4
Total income tax	6,518	6,377	95,297	96,706	1.5
Employment insurance premium revenues	1,781	1,808	18,758	19,388	3.4
Excise taxes and duties					
Goods and services tax	1,314	1,407	19,865	20,929	5.4
Customs import duties	368	149	2,728	2,369	-13.2
Sales and excise taxes	694	674	8,659	8,449	-2.4
Total excise taxes and duties	2,376	2,230	31,252	31,747	1.6
Total tax revenues	10,675	10,415	145,307	147,841	1.7
Non-tax revenues	2,077	2,453	7,320	7,584	3.6
Total budgetary revenues	12,752	12,868	152,627	155,425	1.8

year, whereas in both October 1998 and February 1999, there were transfers from personal income tax revenues, due to underpayments with respect to previous taxation years. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per $100 of insurable earnings) was reduced from $2.90 for 1997 to $2.70 for 1998 (with a corresponding decline in the employer rate). For 1999, the employee rate has been reduced to $2.55.

- Net goods and services tax (GST) revenues were up $1.1 billion, or 5.4 per cent, broadly in line with the growth in the applicable tax base. Customs import duties were down $0.4 billion, or 13.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down $0.2 billion, or 2.4 per cent, due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up $0.3 billion or 3.6 per cent, reflecting higher Exchange Fund Account earnings.

Program spending up $2.6 billion in April 1998 to March 1999 period

Program spending in the April 1998 to March 1999 period was up $2.6 billion, or 2.5 per cent, compared to the same period of 1997-98. Most of the increase was due to higher transfer payments to other levels of government and increased operating and capital expenditures.

- Major transfers to persons were up $0.4 billion, as higher elderly benefit payments more than offset lower employment insurance benefit payments. The increase in elderly benefits reflected an increase in the number of seniors collecting benefits as well as higher average benefits. The decline in employment insurance benefits was attributable to fewer Canadians being unemployed.
- Major transfers to other levels of government were up $1.5 billion, reflecting increased Equalization entitlements. As noted in the 1999 budget, data revisions, primarily resulting from much stronger economic growth in Ontario than in the Equalization-receiving provinces, resulted in large upward revisions to Equalization entitlements. These

revisions relate to both 1998-99 and to prior years. Cash entitlements under the CHST were unchanged as current legislation prevents the fiscal year cash entitlement from falling below $12.5 billion. In the 1999 budget, the federal government announced a one-time CHST supplement of $3.5 billion, which will be accounted for in 1998-99 following passage of enabling legislation.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up $0.6 billion, or 1.3 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were down $0.7 billion, in part reflecting the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. The increase in transfers by Human Resources Development Canada was attributable to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy. Payments to Crown corporations were up $0.1 billion. Operating and capital expenditures, including defence, were up $1.2 billion, largely attributable to the impact of retroactive wage settlements.

Public debt charges up $0.3 billion in April 1998 to March 1999 period

Public debt charges were up $0.3 billion, or 0.8 per cent, as the decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt. The latter reflects not only a slight increase in interest rates but also changes in the composition of interest-bearing debt towards longer-term maturities.

Financial surplus of $10.8 billion (excluding foreign exchange transactions) in 1998-99

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net source of funds amounting to $1.7 billion in the April 1998 to March 1999 period, down from a net source of $3.5 billion in the same period of 1997-98. This decline primarily reflects increased payments to provinces under the tax collection agreements, pertaining to underpayments relating to previous taxation years, and the payment to the Canada Millennium Scholarship Foundation, for which the liability had been established in 1997-98. These payments were, in part, offset by higher funds in the superannuation accounts, primarily relating to the transfer of funds in 1997-98 to NAV CANADA, which dampened the net source of funds in 1997-98, and a higher source of funds in the Canada Pension Plan Account.

As a result, there was a financial surplus (excluding foreign exchange transactions) of $10.8 billion in the April 1998 to March 1999 period, down slightly from the $12.7-billion surplus recorded in the same period of 1997-98. Although final budgetary results will not be available until the fall of 1999, the results for the financial surplus for the April to March period do not differ significantly from the final audited results. The preliminary outcome for the financial surplus for 1998-99 was slightly lower than the February 1999 budget estimate of $11.5 billion, primarily due to timing of payments.

Table 3
Budgetary expenditures

	March		April to March		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,894	1,937	22,212	22,765	2.5
Employment insurance benefits	1,479	1,323	11,897	11,772	-1.1
Total	3,373	3,260	34,109	34,537	1.3
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	12,500	12,500	0.0
Fiscal transfers	827	790	9,729	11,231	15.4
Alternative Payments for Standing Programs	-156	-93	-2,120	-2,147	1.3
Total	1,713	1,739	20,109	21,584	7.3
Direct program spending					
Subsidies and other transfers					
Agriculture	150	82	804	649	-19.3
Foreign Affairs	356	230	1,851	1,635	-11.7
Health	81	93	833	955	14.6
Human Resources Development	272	179	1,622	2,008	23.8
Indian and Northern Development	221	340	3,660	3,689	0.8
Industry and Regional Development	292	272	1,674	1,664	-0.6
Veterans Affairs	114	117	1,368	1,372	0.3
Other	1,480	1,058	4,025	3,144	-21.9
Total	2,966	2,371	15,837	15,116	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	61	27	863	896	3.8
Canada Mortgage and Housing Corporation	135	175	1,663	1,800	8.2
Other	86	100	1,080	1,043	-3.4
Total	282	302	3,606	3,739	3.7
Operating and capital expenditures					
Defence	994	1,072	9,752	9,508	-2.5
All other departmental expenditures	2,262	2,385	19,004	20,483	7.8
Total	3,256	3,457	28,756	29,991	4.3
Total direct program spending	6,504	6,130	48,199	48,846	1.3
Total program expenditures	11,590	11,129	102,417	104,967	2.5
Public debt charges	3,505	3,411	41,016	41,363	0.8
Total budgetary expenditures	15,095	14,540	143,433	146,330	2.0
Memorandum item:					
Total transfers	8,052	7,370	70,055	71,237	1.7

Table 4

The budgetary balance and financial requirements/surplus

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-2,343	-1,672	9,194	9,095
Loans, investments and advances				
Crown corporations	149	301	1,243	1,613
Other		-145	53	-403
Total	149	156	1,296	1,210
Specified purpose accounts				
Canada Pension Plan Account	803	-7	459	1,233
Superannuation accounts	321	243	2,983	3,885
Other	176	34	26	35
Total	1,300	270	3,468	5,153
Other transactions	2,271	2,485	-1,260	-4,707
Total non-budgetary transactions	3,720	2,911	3,504	1,656
Financial requirements/surplus (excluding foreign exchange transactions)	1,377	1,239	12,698	10,751
Foreign exchange transactions	-3,186	-5,846	-2,155	-4,478
Net financial balance	-1,809	-4,607	10,543	6,273

Table 5

Net financial balance and net borrowings

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Net financial balance	-1,809	-4,607	10,543	6,273
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-1,768	-7,300	12,020	972
Canada Savings Bonds	-123	-50	-2,878	-1,875
Treasury bills	3,100	10,950	-23,100	-15,350
Other	-1	499	-11	607
Subtotal	1,208	4,099	-13,969	-15,646
Less: Government's holding of unmatured debt	98	66	241	193
Total	1,306	4,165	-13,728	-15,453
Payable in foreign currencies				
Marketable bonds	899	132	3,679	7,013
Notes and loans	0	0	0	0
Canada bills	436	1,283	984	874
Canada notes	-144	1,273	-497	198
Total	1,191	2,688	4,166	8,085
Net change in borrowings	2,497	6,853	-9,562	-7,368
Change in cash balance	688	2,246	981	-1,095

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	March 31, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	14,711	-7,653
Interest and matured debt	10,419	7,374	-3,045
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	33,002	-10,698
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	121,342	3,885
Canada Pension Plan (net of securities)	4,205	6,794	2,589
Other pension and other accounts	5,872	4,551	-1,321
Total pension and other accounts	127,534	132,687	5,153
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	295,555	972
Treasury bills	112,300	96,950	-15,350
Canada Savings Bonds	29,769	28,087	-1,682
Other	3,456	4,063	607
Subtotal	440,108	424,655	-15,453
Payable in foreign currencies			
Marketable bonds	14,651	23,176	8,525
Canada bills	9,356	10,230	874
Canada notes	3,176	1,863	-1,313
Subtotal	27,183	35,269	8,086
Total unmatured debt	467,291	459,924	-7,367
Total interest-bearing debt	594,825	592,611	-2,214
Total liabilities	638,525	625,613	-12,912
Assets			
Cash and accounts receivable	15,813	8,730	-7,083
Foreign exchange accounts	28,968	33,446	-4,478
Loans, investments and advances (net of allowances)	14,036	12,824	-1,212
Total assets	58,817	55,000	-3,817
Accumulated deficit (net public debt)	579,708	570,613	-9,095

Net financial balance of $6.3 billion/ net borrowings down $7.4 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure.T he buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Table 7
Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986
Less:							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
GST penalties and interest received	19	71	90	129	135	159	127
Gains from wind-up of interest in Crown corporations/disposal of shares	2	110			325		
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.176
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: *Public Accounts of Canada.*

Taking all of these factors into account, preliminary estimates for 1998-99 indicate that there was a net requirement of $4.5 billion from foreign exchange transactions, compared to a net requirement of $2.2 billion in 1997-98.

With a budgetary surplus of $9.1 billion, a net source of $1.7 billion from non-budgetary transactions and a net requirement of funds of $4.5 billion from foreign exchange transactions, there was a net financial surplus of $6.3 billion in 1998-99, compared to a net surplus of $10.6 billion in 1997-98.

With this financial surplus, coupled with a reduction in cash balances of $1.1 billion, the government retired $7.4 billion of market debt in 1998-99. This will mark the second consecutive year in which there has been a reduction in market debt. Over the two fiscal years, market debt has declined by $16.9 billion. Cash balances at the end of March 1999 were $9.3 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) received Royal Assent. As a result, effective April 1, 1991, all GST revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the DSRA. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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May 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 1999

Budgetary surplus up $0.3 billion in April 1999

There was a budgetary surplus of $1.5 billion in April 1999, up $0.3 billion from the surplus of $1.2 billion in April 1998. Budgetary revenues were up 5.2 per cent on a year-over-year basis while public debt charges were down 1.2 per cent. Program spending increased by 4.7 per cent.

Among the major revenue components:

- Personal income tax collections were up 4.3 per cent, or $0.3 billion. This increase reflected continued strength in receipts from monthly deductions from employment income, due to the increase in the number of people employed, and lower refunds, due to fewer returns being processed compared to the same period last year. However, the impact of these factors was partially offset by lower taxes paid on filing with respect to the 1998 taxation year.
- Corporate income tax collections declined 12.7 per cent, or $0.2 billion, due to the weakness in profits in 1998.
- Other income tax revenues were up 47.9 per cent, or $0.1 billion, primarily reflecting the timing of receipts.
- Employment insurance premium revenues were up 2.3 per cent. This increase reflects an understatement of premiums in the early part of last year. Adjusting for this, premium revenues are virtually unchanged, as the effect of the decline in the premium rates (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) on overall premium revenues is being offset by an increase in the number of people employed.
- Net goods and services tax collections increased 16.4 per cent, or $0.3 billion, reflecting both an increase in gross collections and virtually no change in refunds. Refunds are expected to pick up over the course of the year.
- Other excise taxes and duties were virtually unchanged.

Within program spending, all components were higher with the exception of subsidies and other transfers.

- Major transfers to persons were up slightly as increased elderly benefit payments more than offset a decline in employment insurance benefits.
- Major transfers to other levels of government were up 7.4 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The decline in subsidies and other transfers was widespread among most departments. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.

Table 1
Summary statement of transactions

	April	
	1998	1999
	(millions of dollars)	
Budgetary transactions		
Revenues	12,500	13,150
Program spending	-7,862	-8,233
Operating surplus	4,638	4,917
Public debt charges	-3,454	-3,412
Budgetary balance (deficit/surplus)	1,184	1,505
Non-budgetary transactions	-3,456	-3,571
Financial requirements/surplus (excluding foreign exchange transactions)	-2,272	-2,066
Foreign exchange transactions	1,287	-632
Net financial balance	-985	-2,698
Net change in borrowings	-5,557	-4,714
Net change in cash balances	-6,542	-7,412

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- The strong increase in payments to Crown corporations was attributable to the timing of such payments; total payments for the year as a whole are expected to be only slightly higher than last year.
- The increase in operating and capital expenditures was primarily attributable to timing factors.

The decline in public debt charges was attributable to a decline in the stock of interest-bearing debt and lower average effective interest rates on that stock.

Total financial requirement of $2.1 billion (excluding foreign exchange transactions) in April 1999

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement amounting to $3.6 billion in April 1999, up from a net requirement of $3.5 billion in April 1998. As a result, there was a financial requirement (excluding foreign exchange transactions) of $2.1 billion in April 1999, down slightly from the $2.3-billion financial requirement recorded in the same period last year.

Table 2
Budgetary revenues

	April		
	1998	1999	Change
	(millions of dollars)		(%)
Income taxes			
Personal income tax	6,209	6,479	4.3
Corporate income tax	1,241	1,083	-12.7
Other income tax revenue	286	423	47.9
Total income tax	7,736	7,985	3.2
Employment insurance premium revenues	1,748	1,788	2.3
Excise taxes and duties			
Goods and services tax	1,803	2,098	16.4
Customs import duties	174	182	4.6
Sales and excise taxes	621	624	0.5
Total excise taxes and duties	2,598	2,904	11.8
Total tax revenues	12,082	12,677	4.9
Non-tax revenues	418	473	13.2
Total budgetary revenues	12,500	13,150	5.2

Net financial requirement of $2.7 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $0.6 billion in April 1999, compared to a net source of $1.3 billion in April 1998.

With a budgetary surplus of $1.5 billion, a net requirement of $3.6 billion from non-budgetary transactions and a net requirement of funds of $0.6 billion from foreign exchange transactions, there was a net financial requirement of $2.7 billion in April 1999 compared to a net financial requirement of $1.0 billion in April 1998.

Net borrowings down $4.7 billion

Although there was a net financial requirement of $2.7 billion in April 1999, the government still retired $4.7 billion of market debt in that month. This was accomplished by reducing its cash balances by $7.4 billion. Cash balances at the end of April 1999 amounted to $1.9 billion.

Table 3

Budgetary expenditures

	April		
	1998	1999	Change
	(millions of dollars)		(%)
Transfer payments to:			
Persons			
Elderly benefits	1,821	1,871	2.7
Employment insurance benefits	1,114	1,079	-3.1
Total	2,935	2,950	0.5
Other levels of government			
Canada Health and Social Transfer	1,042	1,042	0.0
Fiscal transfers	642	743	15.7
Alternative Payments for Standing Programs	-187	-177	-5.3
Total	1,497	1,608	7.4
Direct program spending			
Subsidies and other transfers			
Agriculture	5	1	-80.0
Foreign Affairs	100	57	-43.0
Health	84	55	-34.5
Human Resources Development	58	28	-51.7
Indian and Northern Development	778	829	6.6
Industry and Regional Development	72	91	26.4
Veterans Affairs	114	113	-0.9
Other	190	194	2.1
Total	1,401	1,368	-2.4
Payments to Crown corporations			
Canadian Broadcasting Corporation	147	113	-23.1
Canada Mortgage and Housing Corporation	125	145	16.0
Other	116	155	33.6
Total	388	413	6.4
Operating and capital expenditures			
Defence	445	540	21.3
All other departmental expenditures	1,196	1,354	13.2
Total	1,641	1,894	15.4
Total direct program spending	3,430	3,675	7.1
Total program expenditures	7,862	8,233	4.7
Public debt charges	3,454	3,412	-1.2
Total budgetary expenditures	11,316	11,645	2.9
Memorandum item:			
Total transfers	5,833	5,926	1.6

Table 4

The budgetary balance and financial requirements/surplus

	April	
	1998	1999
	(millions of dollars)	
Budgetary balance (deficit/surplus)	1,184	1,505
Loans, investments and advances		
Crown corporations	101	-64
Other	1	309
Total	102	245
Specified purpose accounts		
Canada Pension Plan Account	599	-220
Superannuation accounts	340	364
Other	-40	22
Total	899	166
Other transactions	-4,457	-3,982
Total non-budgetary transactions	-3,456	-3,571
Financial requirements/surplus (excluding foreign exchange transactions)	-2,272	-2,066
Foreign exchange transactions	1,287	-632
Net financial balance	-985	-2,698

Table 5

Net financial balance and net borrowings

	April	
	1998	1999
	(millions of dollars)	
Net financial balance	-985	-2,698
Net increase (+)/decrease (-) in borrowings		
Payable in Canadian dollars		
Marketable bonds	–	–
Canada Savings Bonds	-4,200	-4,050
Treasury bills	-629	-86
Other	-1	598
Subtotal	-4,830	-3,538
Less: Government's holding of unmatured debt	90	57
Total	-4,740	-3,481
Payable in foreign currencies		
Marketable bonds	–	–
Notes and loans	–	–
Canada bills	-817	-1,233
Canada notes	–	–
Total	-817	-1,233
Net change in borrowings	-5,557	-4,714
Change in cash balance	-6,542	-7,412

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	April 30, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	18,975	64
Interest and matured debt	7,374	11,080	3,706
Allowances	12,804	12,076	-728
Total accounts payable, accruals and allowances	39,089	42,131	3,042
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	121,706	364
Canada Pension Plan (net of securities)	6,794	6,574	-220
Other pension and other accounts	-4,551	4,573	22
Total pension and other accounts	132,687	132,853	166
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	295,612	57
Treasury bills	96,950	92,900	-4,050
Canada Savings Bonds	28,087	28,001	-86
Other	4,063	4,661	598
Subtotal	424,655	421,174	-3,481
Payable in foreign currencies			
Marketable bonds	23,176	23,176	0
Canada bills	10,230	8,997	-1,233
Canada notes	1,863	1,863	0
Subtotal	35,269	34,036	-1,233
Total unmatured debt	459,924	455,210	-4,714
Total interest-bearing debt	592,611	588,063	-4,548
Total liabilities	631,700	630,194	-1,506
Assets			
Cash and accounts receivable	8,730	8,730	0
Foreign exchange accounts	33,446	33,445	-1
Loans, investments and advances (net of allowances)	12,824	12,824	0
Total assets	55,000	54,999	-1
Accumulated deficit (net public debt)	576,700	575,195	-1,505

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July 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for May 1999

Budgetary surplus of $1.8 billion in May 1999

There was a budgetary surplus of $1.8 billion in May 1999, up $0.8 billion from the surplus recorded in May 1998. About half of the year-over-year increase in the surplus reflected timing considerations, which will be reversed in future months. Budgetary revenues were up $1 billion, or 8.2 per cent, while public debt charges declined $0.1 billion, or 2.3 per cent. Program spending increased $0.3 billion, or 3.7 per cent.

Among the major revenue components:

- Personal income tax collections were up 11.9 per cent. This increase reflected continued strength in receipts from monthly deductions from employment income, due to the increase in the number of people employed, as well as the timing of the receipt of payments. Taxes paid on filing with respect to the 1998 taxation year were also up strongly, more than offsetting the year-over-year decline witnessed last month.
- Corporate income tax collections declined 13.4 per cent, reflecting the weakness in profits in 1998.
- Employment insurance premium revenues were virtually unchanged, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) was offset by an increase in the number of people employed.
- Net goods and services tax collections increased 40.8 per cent, largely due to the timing of receipts. Timing factors depressed gross receipts in May 1998 and there was a corresponding recovery the following month. This year, the reverse appears to have occurred.
- Other excise taxes and duties were up 3.6 per cent in May, while they were virtually unchanged in April. Non-tax revenues declined 17.6 per cent, offsetting all of the year-over-year increase recorded in April.

Within program spending, all components were higher with the exception of subsidies and other transfers, and payments to Crown corporations.

- Major transfers to persons were up slightly due to higher employment insurance benefits. Elderly benefits were unchanged due to timing factors.
- Major transfers to other levels of government were up 4.9 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions indicating much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The decline in subsidies and other transfers was widespread among most departments. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.
- The decline in payments to Crown corporations in May offset part of the increase recorded in April.
- The increase in operating and capital expenditures was primarily attributable to timing factors.

Table 1
Summary statement of transactions

	May		April to May	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	12,346	13,363	24,846	26,514
Program spending	-7,724	-8,006	-15,588	-16,239
Operating surplus	4,622	5,357	9,258	10,275
Public debt charges	-3,593	-3,512	-7,046	-6,924
Budgetary balance (deficit/surplus)	1,029	1,845	2,212	3,351
Non-budgetary transactions	4,594	4,441	1,137	870
Financial requirements/surplus (excluding foreign exchange transactions)	5,623	6,286	3,349	4,221
Foreign exchange transactions	1,178	1,135	2,465	503
Net financial balance	6,801	7,421	5,814	4,724
Net change in borrowings	-5,682	-2,427	-11,239	-7,140
Net change in cash balances	1,119	4,994	-5,425	-2,416

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Most of the decline in public debt charges was due to timing adjustments which overstated the May 1998 results. This will be reversed in future months.

Year-to-date: budgetary surplus of $3.4 billion

Over the first two months of fiscal year 1999-2000, the budgetary surplus was estimated at $3.4 billion, up $1.1 billion from the surplus of $2.2 billion recorded in the same period of 1998-99. However, as noted above, part of this year-over-year improvement is attributable to timing factors, which will be reversed in future months. In addition, the tax reduction measures announced in the 1999 budget, as well as the 1998 budget measure to increase the Canada Child Tax Benefit, became effective July 1, 1999. Therefore, the budgetary results for the first two months of 1999-2000 are not an appropriate indicator of developments over the year as a whole.

Financial surplus of $4.2 billion (excluding foreign exchange transactions) for April and May 1999

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Table 2

Budgetary revenues

	May			April to May		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,288	7,038	11.9	12,496	13,518	8.2
Corporate income tax	1,644	1,424	-13.4	2,886	2,506	-13.2
Other income tax revenue	143	152	6.3	429	575	34.0
Total income tax	8,075	8,614	6.7	15,811	16,599	5.0
Employment insurance premium revenues	1,795	1,800	0.3	3,543	3,587	1.2
Excise taxes and duties						
Goods and services tax	1,244	1,751	40.8	3,047	3,849	26.3
Customs import duties	146	156	6.8	320	338	5.6
Sales and excise taxes	694	719	3.6	1,315	1,342	2.1
Total excise taxes and duties	2,084	2,626	26.0	4,682	5,529	18.1
Total tax revenues	11,954	13,040	9.1	24,036	25,715	7.0
Non-tax revenues	392	323	-17.6	810	799	-1.4
Total budgetary revenues	12,346	13,363	8.2	24,846	26,514	6.7

Non-budgetary transactions resulted in a net source of funds of $0.9 billion in April/May 1999, down $0.3 billion from the net source in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of $4.2 billion in the April/May 1999 period, compared to a financial surplus of $3.3 billion recorded in the same period last year.

Net financial surplus of $4.7 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of $0.5 billion from foreign exchange transactions in the April/May 1999 period, compared to a net source of $2.5 billion in the same period last year.

With a budgetary surplus of $3.4 billion, a net source of funds of $0.9 billion from non-budgetary transactions and a net source of funds of $0.5 billion from foreign exchange transactions, there was a net financial surplus of $4.7 billion in the April/May 1999 period compared to a surplus of $5.8 billion in the same period last year.

Net borrowings down $7.1 billion

With a net financial surplus of $4.7 billion and a reduction in cash balances of $2.4 billion in April/May 1999, the government retired $7.1 billion of market debt in this period. Cash balances at the end of May 1999 amounted to $6.9 billion.

Table 3

Budgetary expenditures

	May			April to May		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,878	1,878	0.0	3,699	3,749	1.4
Employment insurance benefits	881	943	7.0	1,995	2,022	1.4
Total	2,759	2,821	2.2	5,694	5,771	1.4
Other levels of government						
Canada Health and Social Transfer	1,041	1,042	0.1	2,083	2,083	0.0
Fiscal transfers	897	991	10.5	1,539	1,735	12.7
Alternative Payments for Standing Programs	-188	-198	5.3	-375	-375	0.0
Total	1,750	1,835	4.9	3,247	3,443	6.0
Direct program spending						
Subsidies and other transfers						
Agriculture	9	46	411.1	14	47	235.7
Foreign Affairs	65	138	112.3	166	195	17.5
Health	62	61	-1.6	146	116	-20.5
Human Resources Development	170	56	-67.1	228	83	-63.6
Indian and Northern Development	217	229	5.5	995	1,058	6.3
Industry and Regional Development	60	64	6.7	132	155	17.4
Veterans Affairs	113	114	0.9	227	227	0.0
Other	167	102	-38.9	358	296	-17.3
Total	863	810	-6.1	2,266	2,177	-3.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	23	42	82.6	170	155	-8.8
Canada Mortgage and Housing Corporation	175	150	-14.3	300	295	-1.7
Other	57	60	5.3	174	215	23.6
Total	255	252	-1.2	644	665	3.3
Operating and capital expenditures						
Defence	660	699	5.9	1,104	1,238	12.1
All other departmental expenditures	1,437	1,589	10.6	2,633	2,945	11.8
Total	2,097	2,288	9.1	3,737	4,183	11.9
Total direct program spending	3,215	3,350	4.2	6,647	7,025	5.7
Total program expenditures	7,724	8,006	3.7	15,588	16,239	4.2
Public debt charges	3,593	3,512	-2.3	7,046	6,924	-1.7
Total budgetary expenditures	11,317	11,518	1.8	22,634	23,163	2.3
Memorandum item:						
Total transfers	5,372	5,466	1.7	11,207	11,391	1.6

Table 4

The budgetary balance and financial requirements/surplus

	May		April to May	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,029	1,845	2,212	3,351
Loans, investments and advances				
Crown corporations	26	-42	127	-106
Other	46	15	47	324
Total	72	-27	174	218
Specified purpose accounts				
Canada Pension Plan Account	850	665	1,449	445
Superannuation accounts	260	317	600	681
Other	15	-28	-25	-6
Total	1,125	954	2,024	1,120
Other transactions	3,397	3,514	-1,061	-468
Total non-budgetary transactions	4,594	4,441	1,137	870
Financial requirements/surplus (excluding foreign exchange transactions)	5,623	6,286	3,349	4,221
Foreign exchange transactions	1,178	1,135	2,465	503
Net financial balance	6,801	7,421	5,814	4,724

Table 5

Net financial balance and net borrowings

	May		April to May	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	6,801	7,421	5,814	4,724
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,900	4,300	3,900	4,300
Canada Savings Bonds	-365	-137	-994	-223
Treasury bills	-8,900	-5,900	-13,100	-9,950
Other	56	227	55	826
Subtotal	-5,309	-1,510	-10,139	-5,047
Less: Government's holding of unmatured debt	89	49	179	106
Total	-5,220	-1,461	-9,960	-4,941
Payable in foreign currencies				
Marketable bonds	–	–	–	–
Notes and loans	–	–	–	–
Canada bills	-462	-966	-1,279	-2,199
Canada notes	–	–	–	–
Total	-462	-966	-1,279	-2,199
Net change in borrowings	-5,682	-2,427	-11,239	-7,140
Change in cash balance	1,119	4,994	-5,425	-2,416

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	May 31, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	22,319	3,408
Interest and matured debt	7,374	7,604	230
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	40,840	1,751
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,023	681
Canada Pension Plan (net of securities)	6,794	7,239	445
Other pension and other accounts	4,551	4,545	-6
Total pension and other accounts	132,687	133,807	1,120
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	299,855	4,300
Treasury bills	96,950	87,000	-9,950
Canada Savings Bonds	28,087	27,457	-630
Other	4,063	4,889	826
Subtotal	424,655	419,201	-5,454
Payable in foreign currencies			
Marketable bonds	23,176	24,621	1,445
Canada bills	10,230	7,972	-2,258
Canada notes	1,863	1,261	-602
Subtotal	35,269	33,854	-1,415
Total unmatured debt	459,924	453,055	-6,869
Total interest-bearing debt	592,611	586,862	-5,749
Total liabilities	631,700	627,702	-3,998
Assets			
Cash and accounts receivable	8,730	7,362	-1,368
Foreign exchange accounts	33,446	33,949	503
Loans, investments and advances (net of allowances)	12,824	13,042	218
Total assets	55,000	54,353	-647
Accumulated deficit (net public debt)	576,700	573,349	-3,351

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July 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1999

Budgetary surplus down $0.8 billion in June 1999

There was a budgetary surplus of $1.4 billion in June 1999, down $0.8 billion from the surplus of $2.2 billion recorded in June 1998. As indicated in the last *Fiscal Monitor*, a lower fiscal balance was expected in June 1999 as the year-over-year improvement in the first two months of 1999-2000 was primarily attributable to timing considerations. Budgetary revenues were down $0.4 billion, or 3.0 per cent, while program spending increased $0.4 billion, or 4.7 per cent. Public debt charges were unchanged.

Among the major revenue components:

- Personal income tax collections were down 2.1 per cent. This decline was primarily attributable to the timing of receipts, which overstated collections in the previous two months. In addition, refunds relating to the 1998 taxation year were higher.
- Corporate income tax collections declined 2.4 per cent, in part reflecting the weakness in profits in 1998.
- Employment insurance premium revenues were virtually unchanged, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) was offset by an increase in the number of people employed.
- Net goods and services tax (GST) collections declined 25.5 per cent, largely due to the timing of payments, which overstated the net increase in revenues in the first two months of 1999-2000. Customs import duties advanced 53.5 per cent, while other excise taxes and duties were up 2.7 per cent.

Within program spending, all components were higher with the exception of major transfers to persons and defence.

- Major transfers to persons were down slightly, as lower employment insurance benefits more than offset an increase in elderly benefits.
- Major transfers to other levels of government were up 5.4 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions indicating much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The increase in subsidies and other transfers reflects timing considerations. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.
- Payments to Crown corporations were up marginally, again primarily due to the timing of payments.
- The increase in operating and capital expenditures reflects the impact of wage settlements as well as systems difficulties in the allocation of spending among the other components.

Table 1
Summary statement of transactions

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	13,853	13,432	38,699	39,945
Program spending	-8,160	-8,541	-23,748	-24,780
Operating surplus	5,693	4,891	14,951	15,165
Public debt charges	-3,464	-3,464	-10,510	-10,388
Budgetary balance (deficit/surplus)	2,229	1,427	4,441	4,777
Non-budgetary transactions	-3,457	-6,272	-2,318	-5,401
Financial requirements/surplus (excluding foreign exchange transactions)	-1,228	-4,845	2,123	-624
Foreign exchange transactions	1,163	-1,273	3,629	-770
Net financial balance	-65	-6,118	5,752	-1,394
Net change in borrowings	1,469	2,417	-9,770	-4,723
Net change in cash balances	1,404	-3,701	-4,018	-6,117

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Year-to-date: budgetary surplus of $4.8 billion

Over the first three months of fiscal year 1999-2000, the budgetary surplus was estimated at $4.8 billion, up $0.3 billion from the surplus recorded in the same period of 1998-99. The year-over-year improvement in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up $1.2 billion, or 3.2 per cent, on a year-over-year basis. All major components were up with the exception of corporate income tax revenues.

- Personal income tax collections were up $0.9 billion, or 4.7 per cent. This increase was due to both higher taxes paid on filing, related to the 1998 taxation year, and continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed. The results to date were dampened by higher personal income tax refunds related to the 1998 taxation year and by higher CCTB payments, reflecting increases announced in previous budgets.
- Corporate income tax revenues were down $0.4 billion, or 8.9 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- Employment insurance premium revenues were up marginally, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) was offset by an increase in the number of employed.

Table 2

Budgetary revenues

	June			April to June		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,490	6,354	-2.1	18,986	19,872	4.7
Corporate income tax	1,831	1,787	-2.4	4,716	4,294	-8.9
Other income tax revenue	184	203	10.3	613	778	26.9
Total income tax	8,505	8,344	-1.9	24,315	24,944	2.6
Employment insurance premium revenues	1,775	1,779	0.2	5,318	5,366	0.9
Excise taxes and duties						
Goods and services tax	2,050	1,528	-25.5	5,097	5,377	5.5
Customs import duties	185	284	53.5	504	622	23.4
Sales and excise taxes	804	826	2.7	2,118	2,169	2.4
Total excise taxes and duties	3,039	2,638	-13.2	7,719	8,168	5.8
Total tax revenues	13,319	12,761	-4.2	37,352	38,478	3.0
Non-tax revenues	534	671	25.7	1,347	1,467	8.9
Total budgetary revenues	13,853	13,432	-3.0	38,699	39,945	3.2

- Net GST collections were up $0.3 billion, or 5.5 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up, as the growth in imports more than offset the impact of tariff reductions. The increase in other excise taxes and duties was widespread.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up $0.1 billion or 8.9 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by $1.0 billion, or 4.3 per cent, in the April to June 1999 period over the same period last year. This increase was spread among all major components with the exception of subsidies and other transfers.

- Major transfers to persons were up slightly, as lower employment insurance benefits partially offset higher elderly benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The slight decline in employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, which reflected a reduction in the number of unemployed.
- Major transfers to other levels of government were up 5.8 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by $0.7 billion, or 6.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. This component was affected by the timing of payments, the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

Table 3
Budgetary expenditures

	June			April to June		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,868	1,882	0.7	5,567	5,631	1.1
Employment insurance benefits	804	769	-4.4	2,799	2,791	-0.3
Total	2,672	2,651	-0.8	8,366	8,422	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	3,125	3,125	0.0
Fiscal transfers	776	866	11.6	2,315	2,601	12.4
Alternative Payments for Standing Programs	-186	-188	1.1	-560	-563	0.5
Total	1,632	1,720	5.4	4,880	5,163	5.8
Direct program spending						
Subsidies and other transfers						
Agriculture	42	31	-26.2	56	78	39.3
Foreign Affairs	98	34	-65.3	263	229	-12.9
Health	94	146	55.3	239	262	9.6
Human Resources Development	207	193	-6.8	436	276	-36.7
Indian and Northern Development	312	334	7.1	1,306	1,392	6.6
Industry and Regional Development	105	108	2.9	238	263	10.5
Veterans Affairs	112	114	1.8	339	341	0.6
Other	144	202	40.3	502	498	-0.8
Total	1,114	1,162	4.3	3,379	3,339	-1.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	50	-16.7	230	205	-10.9
Canada Mortgage and Housing Corporation	157	150	-4.5	457	445	-2.6
Other	70	95	35.7	244	310	27.0
Total	287	295	2.8	931	960	3.1
Operating and capital expenditures						
Defence	779	772	-0.9	1,883	2,010	6.7
All other departmental expenditures	1,676	1,941	15.8	4,309	4,886	13.4
Total	2,455	2,713	10.5	6,192	6,896	11.4
Total direct program spending	3,856	4,170	8.1	10,502	11,195	6.6
Total program expenditures	8,160	8,541	4.7	23,748	24,780	4.3
Public debt charges	3,464	3,464	0.0	10,510	10,388	-1.2
Total budgetary expenditures	11,624	12,005	3.3	34,258	35,168	2.7
Memorandum item:						
Total transfers	5,418	5,533	2.1	16,625	16,924	1.8

Table 4

The budgetary balance and financial requirements/surplus

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,229	1,427	4,441	4,777
Loans, investments and advances				
Crown corporations	28	-32	155	-137
Other	-58	87	-11	410
Total	-30	55	144	273
Specified purpose accounts				
Canada Pension Plan Account	-451	-175	998	271
Superannuation accounts	366	381	967	1,062
Other	-21	-101	-45	-107
Total	-106	105	1,920	1,226
Other transactions	-3,321	-6,432	-4,382	-6,900
Total non-budgetary transactions	-3,457	-6,272	-2,318	-5,401
Financial requirements/surplus (excluding foreign exchange transactions)	-1,228	-4,845	2,123	-624
Foreign exchange transactions	1,163	-1,273	3,629	-770
Net financial balance	-65	-6,118	5,752	-1,394

Table 5

Net financial balance and net borrowings

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-65	-6,118	5,752	-1,394
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	6,323	5,987	10,223	10,287
Canada Savings Bonds	-544	-952	-1,537	-1,175
Treasury bills	-4,500	-2,400	-17,600	-12,350
Other	1,001	173	1,056	999
Subtotal	2,280	2,808	-7,858	-2,239
Less: Government's holding of unmatured debt	93	66	272	172
Total	2,373	2,874	-7,586	-2,067
Payable in foreign currencies				
Marketable bonds	–	–	–	–
Notes and loans	–	–	–	–
Canada bills	-123	-457	-1,403	-2,656
Canada notes	-781	–	-781	–
Total	-904	-457	-2,184	-2,656
Net change in borrowings	1,469	2,417	-9,770	-4,723
Change in cash balance	1,404	-3,701	-4,018	-6,117

Public debt charges were down 1.2 per cent due to a decline in the average effective interest rate. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial requirement of $0.6 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $5.4 billion in the first three months of 1999-2000, compared to a net requirement of $2.3 billion in the same period last year. This increase was largely attributable to the payment to a third-party trust of the $3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial requirement (excluding foreign exchange transactions) of $0.6 billion in the April to June 1999 period, compared to a financial surplus of $2.1 billion recorded in the same period last year.

Year-to-date: net financial requirement of $1.4 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $0.8 billion in the April to June 1999 period, compared to a net source of $3.6 billion in the same period last year.

With a budgetary surplus of $4.8 billion, a net requirement of $5.4 billion from non-budgetary transactions and a net requirement of $0.8 billion from foreign exchange transactions, there was a net financial requirement of $1.4 billion in the April to June 1999 period compared to a net source of $5.8 billion in the same period last year.

Year-to-date: net borrowings down $4.7 billion

Although there was a net financial requirement of $1.4 billion in the April to June 1999 period, the government has retired $4.7 billion of market debt to the end of June 1999 through a $6.1-billion reduction in its cash balances. Cash balances at the end of June 1999 amounted to $3.2 billion.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	June 30, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	19,340	429
Interest and matured debt	7,374	6,006	-1,368
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	36,263	-2,826
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,404	1,062
Canada Pension Plan (net of securities)	6,794	7,065	271
Other pension and other accounts	4,551	4,444	-107
Total pension and other accounts	132,687	133,913	1,226
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	305,841	10,286
Treasury bills	96,950	84,600	-12,350
Canada Savings Bonds	28,087	27,574	-513
Other	4,063	5,062	999
Subtotal	424,655	423,077	-1,578
Payable in foreign currencies			
Marketable bonds	23,176	24,569	1,393
Canada bills	10,230	7,515	-2,715
Canada notes	1,863	1,261	-602
Subtotal	35,269	33,345	-1,924
Total unmatured debt	459,924	456,422	-3,502
Total interest-bearing debt	592,611	590,335	-2,276
Total liabilities	631,700	626,598	-5,102
Assets			
Cash and accounts receivable	8,730	7,362	-1,368
Foreign exchange accounts	33,446	34,216	770
Loans, investments and advances (net of allowances)	12,824	13,097	273
Total assets	55,000	54,675	-325
Accumulated deficit (net public debt)	576,700	571,923	-4,777

Table 7
Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986
Less:							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
GST penalties and interest received	19	71	90	129	135	159	127
Gains from wind-up of interest in Crown corporations/disposal of shares	2	110			325		
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.176
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: *Public Accounts of Canada.*

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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August 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1999

Budgetary surplus of $0.8 billion in July 1999

There was a budgetary surplus of $0.8 billion in July 1999, down $0.5 billion from the surplus of $1.3 billion recorded in July 1998. Most of the year-over-year decline in the surplus was attributable to a $0.4-billion decline in budgetary revenues.

Among the major revenue components:

- Personal income tax collections were down 8.2 per cent. This decline was primarily attributable to the timing of receipts, which overstated collections in the previous three months. In addition, refunds relating to the 1998 taxation year and payments under the Canada Child Tax Benefit (CCTB) were higher. The monthly results were also dampened by the impact of the tax relief measures announced in the 1999 budget.
- Corporate income tax collections declined 2.7 per cent, in part reflecting the weakness in profits in 1998.
- Employment insurance (EI) premium revenues were down 2.0 per cent, as the effect of the decline in the premium rates (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) more than offset an increase in the number of people employed.
- Net goods and services tax (GST) collections were up 14.8 per cent, largely attributable to lower refunds, which were down 8.9 per cent on a year-over-year basis. In contrast, gross collections advanced by 2.3 per cent. Customs import duties declined by 11.2 per cent, largely due to the timing of payments, which overstated the net increase in the first three months of 1999-2000. Other excise taxes and duties were virtually unchanged.
- Non-tax revenues were up 11.3 per cent, primarily reflecting the timing of receipts.

Program spending advanced by 0.3 per cent on a year-over-year basis, with declines in major transfers to persons and direct program spending virtually offsetting the increase in major transfers to other levels of government.

- Major transfers to persons were down 0.8 per cent, as lower EI benefits, reflecting fewer unemployed, more than offset the increase in elderly benefits.
- Major transfers to other levels of government were up 3.7 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending declined by 0.3 per cent, with an increase of 7.8 per cent in subsidies and other transfers offsetting declines in payments to Crown corporations and operating and capital expenditures. Developments within direct program spending primarily reflect the timing of payments.

Table 1
Summary statement of transactions

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	13,061	12,664	51,760	52,609
Program spending	-8,358	-8,384	-32,106	-33,163
Operating surplus	4,703	4,280	19,654	19,446
Public debt charges	-3,448	-3,506	-13,958	-13,895
Budgetary balance (deficit/surplus)	1,255	774	5,696	5,551
Non-budgetary transactions	-1,153	19	-3,470	-5,381
Financial requirements/surplus (excluding foreign exchange transactions)	102	793	2,226	170
Foreign exchange transactions	-2,420	1,305	1,208	535
Net financial balance	-2,318	2,098	3,434	705
Net change in borrowings	880	2,458	-8,892	-2,265
Net change in cash balances	-1,438	4,556	-5,458	-1,560

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Public debt charges were up 1.7 per cent, primarily reflecting an increase in the stock of interest-bearing debt, as the average effective interest rate was unchanged.

Year-to-date: budgetary surplus down $145 million

Over the first four months of fiscal year 1999-2000, the budgetary surplus was estimated at $5.6 billion, down $0.1 billion from the surplus of $5.7 billion recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the CCTB.

Budgetary revenues were up $0.8 billion, or 1.6 per cent on a year-over-year basis. All major components were up with the exception of corporate income tax revenues.

- Personal income tax collections were up $0.4 billion, or 1.4 per cent. This increase was due to both higher taxes paid on filing, related to the 1998 taxation year, and increases in receipts from monthly deductions from employment income, due to increases in the number of people employed. However, there has been a slowdown in the rate of growth of receipts from monthly deductions, reflecting the impact of the tax relief measures announced in the 1998 and 1999 budgets. In addition, the results to date were further dampened by higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets.

Table 2

Budgetary revenues

	July			April to July		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,531	5,998	-8.2	25,517	25,870	1.4
Corporate income tax	1,712	1,666	-2.7	6,428	5,959	-7.3
Other income tax revenue	220	197	-10.5	833	975	17.0
Total income tax	8,463	7,861	-7.1	32,778	32,804	0.1
Employment insurance premium revenues	1,732	1,697	-2.0	7,051	7,063	0.2
Excise taxes and duties						
Goods and services tax	1,545	1,773	14.8	6,642	7,149	7.6
Customs import duties	251	223	-11.2	756	845	11.8
Sales and excise taxes	724	725	0.1	2,843	2,894	1.8
Total excise taxes and duties	2,520	2,721	8.0	10,241	10,888	6.3
Total tax revenues	12,715	12,279	-3.4	50,070	50,755	1.4
Non-tax revenues	346	385	11.3	1,690	1,854	9.7
Total budgetary revenues	13,061	12,664	-3.0	51,760	52,609	1.6

- Corporate income tax revenues were down $0.5 billion, or 7.3 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were up marginally, as the effect of the decline in the premium rates (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) was offset by an increase in the number of people employed.
- Net GST collections were up $0.5 billion, or 7.6 per cent, while customs import duties were up 11.8 per cent. The growth in revenues in these components to date continues to be affected by timing considerations. The growth rates should come down in coming months and be more reflective of the growth in the respective tax bases. Sales and excise taxes and duties were up 1.8 per cent.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up $0.2 billion or 9.7 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by $1.1 billion, or 3.3 per cent, in the April to July 1999 period, compared to the same period last year. This increase was spread among all major components with the exception of payments to Crown corporations.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset the decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed.

Table 3

Budgetary expenditures

	July			April to July		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,929	1,986	3.0	7,497	7,617	1.6
Employment insurance benefits	873	793	-9.2	3,671	3,584	-2.4
Total	2,802	2,779	-0.8	11,168	11,201	0.3
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	4,167	4,167	0.0
Fiscal transfers	817	880	7.7	3,132	3,481	11.1
Alternative Payments for Standing Programs	-187	-188	0.5	-747	-750	0.4
Total	1,672	1,734	3.7	6,552	6,898	5.3
Direct program spending						
Subsidies and other transfers						
Agriculture	74	18	-75.7	130	96	-26.2
Foreign Affairs	107	127	18.7	370	356	-3.8
Health	84	47	-44.0	324	309	-4.6
Human Resources Development	73	150	105.5	509	426	-16.3
Indian and Northern Development	271	278	2.6	1,578	1,670	5.8
Industry and Regional Development	105	136	29.5	343	399	16.3
Veterans Affairs	114	117	2.6	453	458	1.1
Other	185	219	18.4	686	717	4.5
Total	1,013	1,092	7.8	4,393	4,431	0.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	50	-16.7	290	255	-12.1
Canada Mortgage and Housing Corporation	140	150	7.1	597	595	-0.3
Other	121	85	-29.8	365	395	8.2
Total	321	285	-11.2	1,252	1,245	-0.6
Operating and capital expenditures						
Defence	815	801	-1.7	2,698	2,812	4.2
All other departmental expenditures	1,735	1,693	-2.4	6,043	6,576	8.8
Total	2,550	2,494	-2.2	8,741	9,388	7.4
Total direct program spending	3,884	3,871	-0.3	14,386	15,064	4.7
Total program expenditures	8,358	8,384	0.3	32,106	33,163	3.3
Public debt charges	3,448	3,506	1.7	13,958	13,895	-0.5
Total budgetary expenditures	11,806	11,890	0.7	46,064	47,058	2.2
Memorandum item:						
Total transfers	5,487	5,605	2.2	22,113	22,530	1.9

Table 4

The budgetary balance and financial requirements/surplus

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,255	774	5,696	5,551
Loans, investments and advances				
Crown corporations	392	27	547	-110
Other	30	-53	19	357
Total	422	-26	566	247
Specified purpose accounts				
Canada Pension Plan Account	-514	-472	484	-202
Superannuation accounts	261	382	1,228	1,445
Other	-13	-18	-57	-125
Total	-266	-108	1,655	1,118
Other transactions	-1,309	153	-5,691	-6,746
Total non-budgetary transactions	-1,153	19	-3,470	-5,381
Financial requirements/surplus (excluding foreign exchange transactions)	102	793	2,226	170
Foreign exchange transactions	-2,420	1,305	1,208	535
Net financial balance	-2,318	2,098	3,434	705

Table 5

Net financial balance and net borrowings

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-2,318	2,098	3,434	705
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	–	–	10,223	10,287
Canada Savings Bonds	-283	222	-1,821	-954
Treasury bills	-3,100	3,150	-20,700	-9,200
Other	515	247	1,571	1,246
Subtotal	-2,868	3,619	-10,727	1,379
Less: Government's holding of unmatured debt	94	-68	365	105
Total	-2,774	3,551	-10,362	1,484
Payable in foreign currencies				
Marketable bonds	3,494	–	3,494	–
Notes and loans	–	–	–	–
Canada bills	252	-867	-1,151	-3,523
Canada notes	-92	-226	-873	-226
Total	3,654	-1,093	1,470	-3,749
Net change in borrowings	880	2,458	-8,892	-2,265
Change in cash balance	-1,438	4,556	-5,458	-1,560

- Major transfers to other levels of government were up 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by $0.7 billion, or 4.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

Public debt charges were down 0.5 per cent due to a decline in the average effective interest rate.T he stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of $0.2 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $5.4 billion in the first four months of 1999-2000, compared to a net requirement of $3.5 billion in the same period last year.T his increase was entirely attributable to the payment to a third-party trust of the $3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of $0.2 billion in the April to July 1999 period, compared to a financial surplus of $2.2 billion recorded in the same period last year.

Year-to-date: net financial surplus of $0.7 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure.T he buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of $0.5 billion in the April to July 1999 period, compared to a net source of $1.2 billion in the same period last year.

With a budgetary surplus of $5.6 billion, a net requirement of $5.4 billion from non-budgetary transactions and a net source of $0.5 billion from foreign exchange transactions, there was a net financial surplus of $0.7 billion in the April to July 1999 period compared to a net surplus of $3.4 billion in the same period last year.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	July 31, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	18,274	-637
Interest and matured debt	7,374	7,505	131
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	36,696	-2,393
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,787	1,445
Canada Pension Plan (net of securities)	6,794	6,592	-202
Other pension and other accounts	4,551	4,426	-125
Total pension and other accounts	132,687	133,805	1,118
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	305,864	10,309
Treasury bills	96,950	87,833	-9,117
Canada Savings Bonds	28,087	27,133	-954
Other	4,063	5,309	1,246
Subtotal	424,655	426,139	1,484
Payable in foreign currencies			
Marketable bonds	23,176	23,176	
Canada bills	10,230	6,707	-3,523
Canada notes	1,863	1,637	-226
Subtotal	35,269	31,520	-3,749
Total unmatured debt	459,924	457,659	-2,265
Total interest-bearing debt	592,611	591,464	-1,147
Total liabilities	631,700	628,160	-3,540
Assets			
Cash and accounts receivable	8,730	9,959	1,229
Foreign exchange accounts	33,446	33,981	535
Loans, investments and advances (net of allowances)	12,824	13,071	247
Total assets	55,000	57,011	2,011
Accumulated deficit (net public debt)	576,700	571,149	-5,551

Year-to-date: net borrowings down $2.3 billion

Although there was a net financial surplus of only $0.7 billion in the April to July 1999 period, the government has retired $2.3 billion of market debt to the end of July 1999, primarily through a $1.6-billion reduction in its cash balances. Cash balances at the end of July 1999 amounted to $7.7 billion.

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September 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1999

Budgetary surplus of $0.6 billion in August 1999

There was a budgetary surplus of $0.6 billion in August 1999, up $0.4 billion from the surplus of $0.2 billion recorded in August 1998. All of this year-over-year increase was due to higher budgetary revenues, up $0.7 billion, or 5.7 per cent. Program spending was up $0.2 billion, or 2.6 per cent, while public debt charges were up $69 million, or 2.2 per cent.

Within budgetary revenues:

- Personal income tax collections were up 11.2 per cent, with all of the increase attributable to higher receipts from deductions from employment income. This primarily reflects the timing of receipts, as there was an extra pay period included in the August 1999 results. Most of this increase should be offset in September.
- Corporate income tax collections declined 16.9 per cent, primarily reflecting higher refunds attributable to the instalment overpayments in 1998-99.
- Employment insurance (EI) premium revenues were down 4.7 per cent, as the effect of the decline in the premium rates (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) more than offset an increase in the number of people employed.
- Net goods and services tax (GST) revenues were up 19.8 per cent. Monthly revenues to date have been extremely volatile and inconsistent with the developments in the underlying tax base. Customs import duties declined by 41.2 per cent, largely due to the timing of payments, which overstated the net increase in the first four months of 1999-2000. Other excise taxes and duties were down 4.7 per cent.
- Non-tax revenues were up 37.2 per cent, primarily reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up 3.6 per cent. Elderly benefits advanced 3.0 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits were up 4.8 per cent, largely reflecting timing considerations – in July, EI benefits were down 9.2 per cent.
- Major transfers to other levels of government were up 5.1 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 0.9 per cent. Subsidies and other transfers were down 17.1 per cent, payments to Crown corporations were up 28.3 per cent, while operating and capital expenditures were up 6.8 per cent. Developments within direct program spending primarily reflect the timing of payments.

Table 1
Summary statement of transactions

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	11,800	12,473	63,561	65,081
Program spending	-8,498	-8,720	-40,604	-41,884
Operating surplus	3,302	3,753	22,957	23,197
Public debt charges	-3,124	-3,193	-17,082	-17,087
Budgetary balance (deficit/surplus)	178	560	5,875	6,110
Non-budgetary transactions	2,174	1,010	-1,296	-4,371
Financial requirements/surplus (excluding foreign exchange transactions)	2,352	1,570	4,579	1,739
Foreign exchange transactions	5,681	-859	6,889	-324
Net financial balance	8,033	711	11,468	1,415
Net change in borrowings	1,577	878	-7,314	-1,388
Net change in cash balances	9,610	1,589	4,154	27

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Public debt charges were up 2.2 per cent, primarily reflecting an increase in the stock of interest-bearing debt.

Year-to-date: budgetary surplus at $6.1 billion

Over the first five months of fiscal year 1999-2000, the budgetary surplus was estimated at $6.1 billion, up $0.2 billion from the surplus of $5.9 billion recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up $1.5 billion, or 2.4 per cent, on a year-over-year basis. All major components were up with the exception of corporate income tax revenues, EI premium revenues and customs import duties.

- Personal income tax collections were up $0.9 billion, or 3.1 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed and to the inclusion of an extra pay period in the year-to-date results. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets. Moving forward, the results will be affected by the tax relief measures announced in the 1999 budget.
- Corporate income tax revenues were down $0.7 billion, or 9.0 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.

Table 2

Budgetary revenues

	August			April to August		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	5,288	5,878	11.2	30,805	31,748	3.1
Corporate income tax	1,409	1,171	-16.9	7,838	7,130	-9.0
Other income tax revenue	222	271	22.1	1,055	1,246	18.1
Total income tax	6,919	7,320	5.8	39,698	40,124	1.1
Employment insurance premium revenues	1,607	1,531	-4.7	8,658	8,594	-0.7
Excise taxes and duties						
Goods and services tax	1,870	2,240	19.8	8,512	9,390	10.3
Customs import duties	277	163	-41.2	1,033	1,008	-2.4
Sales and excise taxes	780	743	-4.7	3,621	3,639	0.5
Total excise taxes and duties	2,927	3,146	7.5	13,166	14,037	6.6
Total tax revenues	11,453	11,997	4.7	61,522	62,755	2.0
Non-tax revenues	347	476	37.2	2,039	2,326	14.1
Total budgetary revenues	11,800	12,473	5.7	63,561	65,081	2.4

- EI premium revenues were down marginally, as the effect of the decline in the premium rates was largely offset by an increase in the number of people employed.
- Net GST collections were up $0.9 billion, or 10.3 per cent, well in excess of the growth in the underlying tax base. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 2.4 per cent, reflecting the impact of tariff reductions. Sales and excise taxes and duties were up marginally.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up $0.3 billion, or 14.1 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by $1.3 billion, or 3.2 per cent, in the April to August 1999 period, compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset the decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed.
- Major transfers to other levels of government were up $0.4 billion, or 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by $0.7 billion, or 3.9 per cent.

Table 3
Budgetary expenditures

	August			April to August		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,888	1,945	3.0	9,385	9,562	1.9
Employment insurance benefits	911	955	4.8	4,582	4,539	-0.9
Total	2,799	2,900	3.6	13,967	14,101	1.0
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	5,208	5,209	0.0
Fiscal transfers	782	866	10.7	3,913	4,347	11.1
Alternative Payments for Standing Programs	-187	-188	0.5	-934	-938	0.4
Total	1,637	1,720	5.1	8,187	8,618	5.3
Direct program spending						
Subsidies and other transfers						
Agriculture	93	53	-43.0	223	149	-33.2
Foreign Affairs	145	155	6.9	515	510	-1.0
Health	90	121	34.4	414	430	3.9
Human Resources Development	173	32	-81.5	681	458	-32.7
Indian and Northern Development	305	261	-14.4	1,883	1,932	2.6
Industry and Regional Development	153	147	-3.9	496	546	10.1
Veterans Affairs	113	115	1.8	566	573	1.2
Other	132	114	-13.6	818	831	1.6
Total	1,204	998	-17.1	5,596	5,429	-3.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	44	85	93.2	334	340	1.8
Canada Mortgage and Housing Corporation	150	150	0.0	747	745	-0.3
Other	43	69	60.5	408	464	13.7
Total	237	304	28.3	1,489	1,549	4.0
Operating and capital expenditures						
Defence	876	1,016	16.0	3,574	3,826	7.1
All other departmental expenditures	1,745	1,782	2.1	7,791	8,361	7.3
Total	2,621	2,798	6.8	11,365	12,187	7.2
Total direct program spending	4,062	4,100	0.9	18,450	19,165	3.9
Total program expenditures	8,498	8,720	2.6	40,604	41,884	3.2
Public debt charges	3,124	3,193	2.2	17,082	17,087	0.0
Total budgetary expenditures	11,622	11,913	2.5	57,686	58,971	2.2
Memorandum item:						
Total transfers	5,640	5,618	-0.4	27,750	28,148	1.4

Table 4

The budgetary balance and financial requirements/surplus

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	178	560	5,875	6,110
Loans, investments and advances				
Crown corporations	62	60	609	-50
Other	98	-357	117	1
Total	160	-297	726	-49
Specified purpose accounts				
Canada Pension Plan Account	-122	-246	361	-448
Superannuation accounts	300	388	1,528	1,833
Other	52	14	-5	-111
Total	230	156	1,884	1,274
Other transactions	1,784	1,151	-3,906	-5,596
Total non-budgetary transactions	2,174	1,010	-1,296	-4,371
Financial requirements/surplus (excluding foreign exchange transactions)	2,352	1,570	4,579	1,739
Foreign exchange transactions	5,681	-859	6,889	-324
Net financial balance	8,033	711	11,468	1,415

Table 5

Net financial balance and net borrowings

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	8,033	711	11,468	1,415
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	2,300	-800	12,523	9,487
Canada Savings Bonds	-196	-34	-2,017	-988
Treasury bills	-2,100	1,750	-22,800	-7,450
Other	-24	49	1,547	1,295
Subtotal	-20	965	-10,747	2,344
Less: Government's holding of unmatured debt	89	173	455	278
Total	69	1,138	-10,292	2,622
Payable in foreign currencies				
Marketable bonds	75	-113	3,569	-113
Notes and loans	–	–	–	–
Canada bills	1,433	-147	282	-3,671
Canada notes	–	–	-873	-226
Total	1,508	-260	2,978	-4,010
Net change in borrowings	1,577	878	-7,314	-1,388
Change in cash balance	-9,610	1,589	4,154	27

This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

Public debt charges were virtually unchanged from year-earlier levels, as an increase in the stock of interest-bearing debt offset the impact of a decline in the average effective interest rate on that stock. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of $1.7 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $4.4 billion in the first five months of 1999-2000, compared to a net requirement of $1.3 billion in the same period last year. This increase was entirely attributable to the payment to a third-party trust of the $3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of $1.7 billion in the April to August 1999 period, compared to a financial surplus of $4.6 billion recorded in the same period last year.

Year-to-date: net financial surplus of $1.4 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $0.3 billion in the April to August 1999 period, compared to a net source of $6.9 billion in the same period last year.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	August 31, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	15,867	-8,642
Interest and matured debt	9,791	8,816	-975
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	35,699	-9,617
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	124,240	1,833
Canada Pension Plan (net of securities)	5,427	4,979	-448
Other pension and other accounts	6,724	6,614	-110
Total pension and other accounts	134,558	135,833	1,275
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	305,239	9,487
Treasury bills	96,950	89,500	-7,450
Canada Savings Bonds	27,662	26,951	-711
Other	4,063	5,357	1,294
Subtotal	424,427	427,047	2,620
Payable in foreign currencies			
Marketable bonds	23,907	23,794	
Canada bills	10,230	6,559	-3,671
Canada notes	1,863	1,637	-226
Subtotal	36,000	31,990	-4,010
Total unmatured debt	460,427	459,037	-1,390
Total interest-bearing debt	594,985	594,870	-115
Total liabilities	640,301	630,569	-9,732
Assets			
Cash and accounts receivable	15,273	11,279	-3,994
Foreign exchange accounts	34,668	34,991	323
Loans, investments and advances (net of allowances)	13,536	13,585	49
Total assets	63,477	59,855	-3,622
Accumulated deficit (net public debt)	576,824	570,714	-6,110

The Fiscal Monitor

With a budgetary surplus of $6.1 billion, a net requirement of $4.4 billion from non-budgetary transactions and a net requirement of $0.3 billion from foreign exchange transactions, there was a net financial surplus of $1.4 billion in the April to August 1999 period compared to a net surplus of $11.5 billion in the same period last year.

This net financial surplus was used to retire $1.4 billion of market debt to the end of August 1999. Cash balances at the end of August 1999 amounted to $9.3 billion.

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Highlights of financial results for September 1999

Budgetary surplus of $1.9 billion in September 1999

There was a budgetary surplus of $1.9 billion in September 1999, down $0.1 billion from the surplus recorded in September 1998, as an increase in budgetary revenues (up $0.4 billion, or 2.9 per cent) was more than offset by increases in program spending (up $0.4 billion, or 4.9 per cent) and public debt charges (up $0.1 billion, or 2.5 per cent).

Within budgetary revenues:

- Personal income tax collections were up 9.9 per cent. However, about half of this increase was attributable to a transfer to employment insurance (EI) premium revenues in September 1998, which depressed personal income tax revenues in that month. Most of the remaining increase was attributable to continued strength in deductions from employment income, reflecting an increase in the number of people employed.
- Corporate income tax collections declined 2.0 per cent, primarily reflecting higher refunds attributable to instalment overpayments in 1998-99.
- EI premium revenues were down 20.7 per cent, primarily reflecting the September 1998 transfer from personal income tax revenues for underpayments relating to taxation year 1997. In addition, the reduction in the premium rates (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) more than offset an increase in the number of people employed.
- Excise taxes and duties increased by 4.1 per cent, roughly in line with the increase in the applicable tax base. However, there were large variations among the components. Net goods and services tax (GST) revenues were up 19.2 per cent, with virtually all of the increase attributable to GST collected on imports. In contrast, customs import duties declined 36.7 per cent. Other excise taxes and duties were down 18.2 per cent.
- Non-tax revenues declined 20.0 per cent, primarily reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were down 1.8 per cent. Elderly benefits advanced 2.9 per cent, reflecting higher average benefits and an increase in the number of recipients. In contrast, EI benefits were down 13.1 per cent, largely reflecting timing considerations, which should be reversed in October.
- Major transfers to other levels of government were up 4.9 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 9.4 per cent. Most of this increase reflects the timing of payments. Subsidies and other transfers were up 11.3 per cent, following a decline of 17.1 per cent in August 1999. Payments to Crown corporations were up 9.4 per cent. Increased defence spending accounted for most of the increase in operating and capital expenditures.

Table 1
Summary statement of transactions

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	13,630	14,031	77,191	79,113
Program spending	-8,227	-8,630	-48,832	-50,514
Operating surplus	5,403	5,401	28,359	28,599
Public debt charges	-3,376	-3,461	-20,457	-20,549
Budgetary balance (deficit/surplus)	2,027	1,940	7,902	8,050
Non-budgetary transactions	-986	159	-2,282	-4,211
Financial requirements/surplus (excluding foreign exchange transactions)	1,041	2,099	5,620	3,839
Foreign exchange transactions	-1,054	501	5,835	177
Net financial balance	-13	2,600	11,455	4,016
Net change in borrowings	-9,109	-9,312	-16,424	-10,702
Net change in cash balances	-9,122	-6,712	-4,969	-6,686

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Public debt charges were up 2.5 per cent, primarily reflecting an increase in the stock of interest-bearing debt.

Year-to-date: budgetary surplus of $8.0 billion

Over the first six months of fiscal year 1999-2000, the budgetary surplus was estimated at $8.0 billion, up $148 million from the surplus recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, the recently announced reduction in EI premium rates effective January 1, 2000 (the employee rate for 2000 will be $2.40 per $100 of insurable earnings compared to $2.55 for 1999), as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up $1.9 billion, or 2.5 per cent, on a year-over-year basis, with most of the increase attributable to higher personal income tax revenues.

- Personal income tax collections were up $1.6 billion, or 4.3 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed, and higher taxes on filing related to the 1998 taxation year. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets. Moving forward, the results will be affected by the tax relief measures announced in the 1999 budget.
- Corporate income tax revenues were down $0.7 billion, or 7.9 per cent, due to the decline in corporate profits witnessed in 1998.

Table 2

Budgetary revenues

	September			April to September		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,803	7,474	9.9	37,608	39,222	4.3
Corporate income tax	1,423	1,394	-2.0	9,261	8,525	-7.9
Other income tax revenue	55	198	260.0	1,110	1,444	30.1
Total income tax	8,281	9,066	9.5	47,979	49,191	2.5
Employment insurance premium revenues	1,764	1,398	-20.7	10,422	9,992	-4.1
Excise taxes and duties						
Goods and services tax	1,858	2,214	19.2	10,370	11,603	11.9
Customs import duties	256	162	-36.7	1,289	1,170	-9.2
Sales and excise taxes	780	638	-18.2	4,402	4,277	-2.8
Total excise taxes and duties	2,894	3,014	4.1	16,061	17,050	6.2
Total tax revenues	12,939	13,478	4.2	74,462	76,233	2.4
Non-tax revenues	691	553	-20.0	2,729	2,880	5.5
Total budgetary revenues	13,630	14,031	2.9	77,191	79,113	2.5

Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.

- EI premium revenues were down $0.4 billion, or 4.1 per cent, primarily reflecting the impact of prior-year adjustments, as noted above.

- Excise taxes and duties increased $1.0 billion, or 6.2 per cent. Net GST collections were up $1.2 billion, or 11.9 per cent, well in excess of the growth in the underlying tax base. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 9.2 per cent. Sales and excise taxes and duties were down 2.8 per cent, primarily attributable to the elimination of the Air Transportation Tax, effective November 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up $0.2 billion, or 5.5 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by $1.7 billion, or 3.4 per cent, in the April to September 1999 period compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset a decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed and timing factors.

Table 3
Budgetary expenditures

	September			April to September		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,872	1,926	2.9	11,257	11,488	2.1
Employment insurance benefits	781	679	-13.1	5,363	5,218	-2.7
Total	2,653	2,605	-1.8	16,620	16,706	0.5
Other levels of government						
Canada Health and Social Transfer	1,042	1,041	-0.1	6,250	6,250	0.0
Fiscal transfers	784	867	10.6	4,698	5,214	11.0
Alternative Payments for Standing Programs	-187	-188	0.5	-1,120	-1,125	0.4
Total	1,639	1,720	4.9	9,828	10,339	5.2
Direct program spending						
Subsidies and other transfers						
Agriculture	39	121	210.3	262	270	3.1
Foreign Affairs	143	136	-4.9	657	647	-1.5
Health	55	72	30.9	469	501	6.8
Human Resources Development	156	249	59.6	837	707	-15.5
Indian and Northern Development	307	320	4.2	2,190	2,252	2.8
Industry and Regional Development	125	64	-48.8	621	610	-1.8
Veterans Affairs	115	115	0.0	681	689	1.2
Other	165	153	-7.3	983	984	0.1
Total	1,105	1,230	11.3	6,700	6,660	-0.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	66	80	21.2	400	420	5.0
Canada Mortgage and Housing Corporation	120	150	25.0	867	895	3.2
Other	81	62	-23.5	490	526	7.3
Total	267	292	9.4	1,757	1,841	4.8
Operating and capital expenditures						
Defence	787	969	23.1	4,361	4,796	10.0
All other departmental expenditures	1,776	1,814	2.1	9,566	10,172	6.3
Total	2,563	2,783	8.6	13,927	14,968	7.5
Total direct program spending	3,935	4,305	9.4	22,384	23,469	4.8
Total program expenditures	8,227	8,630	4.9	48,832	50,514	3.4
Public debt charges	3,376	3,461	2.5	20,457	20,549	0.4
Total budgetary expenditures	11,603	12,091	4.2	69,289	71,063	2.6
Memorandum item:						
Total transfers	5,397	5,555	2.9	33,148	33,705	1.7

Table 4

The budgetary balance and financial requirements/surplus

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,027	1,940	7,902	8,050
Loans, investments and advances				
Crown corporations	122	69	730	19
Other	-553	-123	-435	-122
Total	-431	-54	295	-103
Specified purpose accounts				
Canada Pension Plan Account	1,028	737	1,389	289
Superannuation accounts	363	480	1,891	2,313
Other	24	14	19	-97
Total	1,415	1,231	3,299	2,505
Other transactions	-1,970	-1,018	-5,876	-6,613
Total non-budgetary transactions	-986	159	-2,282	-4,211
Financial requirements/surplus (excluding foreign exchange transactions)	1,041	2,099	5,620	3,839
Foreign exchange transactions	-1,054	501	5,835	177
Net financial balance	-13	2,600	11,455	4,016

Table 5

Net financial balance and net borrowings

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-13	2,600	11,455	4,016
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-6,492	-11,693	6,031	-2,206
Canada Savings Bonds	-99	-27	-2,116	-1,015
Treasury bills	-3,600	3,650	-26,400	-3,801
Other	-1,004	-759	543	535
Subtotal	-11,195	-8,829	-21,942	-6,487
Less: Government's holding of unmatured debt	77	55	532	332
Total	-11,118	-8,774	-21,410	-6,155
Payable in foreign currencies				
Marketable bonds	308	-302	3,877	-415
Notes and loans	–	–	–	–
Canada bills	1,754	-206	2,035	-3,876
Canada notes	-53	-30	-926	-256
Total	2,009	-538	4,986	-4,547
Net change in borrowings	-9,109	-9,312	-16,424	-10,702
Change in cash balance	-9,122	-6,712	-4,969	-6,686

- Major transfers to other levels of government were up $0.5 billion, or 5.2 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by $1.1 billion, or 4.8 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were up slightly from year-earlier levels, as an increase in the stock of interest-bearing debt more than offset the impact of a decline in the average effective interest rate on that stock. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of $3.8 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $4.2 billion in the first six months of 1999-2000, compared to a net requirement of $2.3 billion in the same period last year. This increase was entirely attributable to the payment to a third-party trust of the $3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of $3.8 billion in the April to September 1999 period, compared to a financial surplus of $5.6 billion recorded in the same period last year.

Year-to-date: net financial surplus of $4.0 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure.T he buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of $0.2 billion in the April to September 1999 period,c ompared to a net source of $5.8 billion in the same period last year.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	September 30, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	16,881	-7,628
Interest and matured debt	9,791	9,449	-342
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	37,346	-7,970
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	124,721	2,314
Canada Pension Plan (net of securities)	5,427	5,716	289
Other pension and other accounts	6,724	6,627	-97
Total pension and other accounts	134,558	137,064	2,506
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	293,546	-2,206
Treasury bills	96,950	93,150	-3,800
Canada Savings Bonds	27,662	26,980	-682
Other	4,063	4,598	535
Subtotal	424,427	418,274	-6,153
Payable in foreign currencies			
Marketable bonds	24,568	24,154	-415
Canada bills	10,171	6,294	-3,876
Canada notes	1,261	1,005	-256
Subtotal	36,000	31,453	-4,547
Total unmatured debt	460,427	449,727	-10,701
Total interest-bearing debt	594,985	586,790	-8,195
Total liabilities	640,301	624,136	-16,165
Assets			
Cash and accounts receivable	15,273	7,232	-8,041
Foreign exchange accounts	34,668	34,491	-177
Loans, investments and advances (net of allowances)	13,536	13,639	103
Total assets	63,477	55,362	-8,115
Accumulated deficit (net public debt)	576,824	568,774	-8,050

Table 7
Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	(millions of dollars)							
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
Less:								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
GST penalties and interest received	19	71	90	129	135	159	127	123
Gains from wind-up of interest in Crown corporations/ disposal of shares	2	110			325			
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: *Public Accounts of Canada.*

With a budgetary surplus of $8.0 billion, a net requirement of $4.2 billion from non-budgetary transactions and a net source of $0.2 billion from foreign exchange transactions, there was a net financial surplus of $4.0 billion in the April to September 1999 period compared to a net surplus of $11.5 billion in the same period last year.

This net financial surplus, coupled with a drawdown in cash balances of $6.7 billion, was used to retire $10.7 billion of market debt to the end of September 1999. Cash balances atthe end of September 1999 amounted to $2.6 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 and 1998-99 financial statements, the Auditor General questioned the need for this account, given the fundamental concept of the Consolidated Revenue Fund.T he Government has asked the House of Commons Standing Committee on Finance to review this issue.

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November 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for October 1999

Budgetary surplus of $112 million in October 1999

There was a budgetary surplus of $112 million in October 1999, compared to a deficit of $428 million in October 1998, as higher budgetary revenues (up $478 million or 4.2 per cent) and lower public debt charges (down $186 million or 5.4 per cent) more than offset an increase in program spending (up $124 million or 1.5 per cent).

Within budgetary revenues:

- Personal income tax revenues were up 13.4 per cent, primarily attributable to continued strong gains in deductions from employment income, reflecting increases in the number of people employed.
- Corporate income tax revenues declined 18.6 per cent, primarily reflecting higher refunds attributable to the instalment overpayments in 1998-99.
- Employment insurance (EI) premium revenues were down 6.1 per cent, as the reduction in the premium rates (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) more than offset an increase in the number of people employed.
- Excise taxes and duties increased by 7.0 per cent. There continue to be large variations among the components. Net goods and services tax (GST) revenues were up 13.5 per cent, as an increase in gross collections outpaced the growth in refunds and in the low-income credit. Customs import duties increased by 10.0 per cent, following a year-over-year decline of 36.7 per cent in September 1999. Other excise taxes and duties were down 10.2 per cent, following a year-over-year decline of 18.2 per cent in September 1999.
- Non-tax revenues declined 17.1 per cent, following a year-over-year decline of 20.0 per cent in September 1999.

Within program spending:

- Major transfers to persons were up 1.3 per cent. Elderly benefits advanced 1.7 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits increased 0.4 per cent.
- Major transfers to other levels of government were up 2.1 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 1.3 per cent. Subsidies and other transfers were up 3.6 per cent, payments to Crown corporations declined 14.5 per cent, while operating and capital expenditures increased by 2.3 per cent.

The decline in public debt charges was entirely attributable to corrections for overestimations of accrual adjustments in previous months.

Table 1
Summary statement of transactions

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	11,511	11,989	88,702	91,101
Program spending	-8,498	-8,622	-57,329	-59,137
Operating surplus	3,013	3,367	31,373	31,964
Public debt charges	-3,441	-3,255	-23,899	-23,803
Budgetary balance (deficit/surplus)	-428	112	7,474	8,161
Non-budgetary transactions	-527	1,040	-2,807	-3,172
Financial requirements/surplus (excluding foreign exchange transactions)	-955	1,152	4,667	4,989
Foreign exchange transactions	-297	-1,039	5,538	-862
Net financial balance	-1,252	113	10,205	4,127
Net change in borrowings	-1,982	3,783	-18,406	-6,916
Net change in cash balances	-3,234	3,896	-8,201	-2,789

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Year-to-date: budgetary surplus at $8.2 billion

Over the first seven months of fiscal year 1999-2000, the budgetary surplus was estimated at $8.2 billion, up $0.7 billion from the surplus recorded in the same period of 1998-99. Based on previous years' experience, and including the impact of the tax relief measures announced in the February 1999 budget and the recently announced reduction in EI premium rates from $2.55 to $2.40 (employee rate per $100 of insurable earnings), the budgetary surplus should continue to grow to the end of December but then decline in the final quarter of the fiscal year. As indicated in *The Economic and Fiscal Update*, in the absence of any additional policy measures, the underlying budgetary balance, based on the average of the private sector forecasts, is estimated at $5.0 billion for the year as a whole. Of this amount, $3.0 billion is earmarked for the Contingency Reserve, which if not needed, will be used to pay down the public debt.

Budgetary revenues were up $2.4 billion, or 2.7 per cent, on a year-over-year basis, as higher personal income tax and GST revenues more than offset declines in corporate income tax and EI premium revenues.

- Personal income tax collections were up $2.3 billion, or 5.4 per cent, with virtually all of the increase reported in the last three months. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.

Table 2

Budgetary revenues

	October			April to October		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	5,413	6,138	13.4	43,022	45,361	5.4
Corporate income tax	1,380	1,124	-18.6	10,641	9,648	-9.3
Other income tax revenue	273	255	-6.6	1,383	1,699	22.8
Total income tax	7,066	7,517	6.4	55,046	56,708	3.0
Employment insurance premium revenues	1,322	1,242	-6.1	11,744	11,234	-4.3
Excise taxes and duties						
Goods and services tax	1,764	2,003	13.5	12,133	13,606	12.1
Customs import duties	190	209	10.0	1,479	1,379	-6.8
Sales and excise taxes	706	634	-10.2	5,107	4,910	-3.9
Total excise taxes and duties	2,660	2,846	7.0	18,719	19,895	6.3
Total tax revenues	11,048	11,605	5.0	85,509	87,837	2.7
Non-tax revenues	463	384	-17.1	3,193	3,264	2.2
Total budgetary revenues	11,511	11,989	4.2	88,702	91,101	2.7

- Corporate income tax revenues were down $1.0 billion, or 9.3 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were down $0.5 billion, or 4.3 per cent, as the decline in EI premium rates and adjustments related to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased $1.2 billion or 6.3 per cent. Net GST collections were up $1.5 billion, or 12.1 per cent, well in excess of the growth in the underlying tax base, and more than the increase recorded in 1998-99 for the year as a whole. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 6.8 per cent. Sales and excise taxes and duties were down 3.9 per cent, in part attributable to the elimination of the Air Transportation Tax, effective November 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up $0.1 billion, or 2.2 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Table 3
Budgetary expenditures

	October			April to October		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,928	1,960	1.7	13,185	13,448	2.0
Employment insurance benefits	747	750	0.4	6,110	5,969	-2.3
Total	2,675	2,710	1.3	19,295	19,417	0.6
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	7,292	7,292	0.0
Fiscal transfers	829	868	4.7	5,527	6,081	10.0
Alternative Payments for Standing Programs	-185	-188	1.6	-1,305	-1,313	0.6
Total	1,686	1,722	2.1	11,514	12,060	4.7
Direct program spending						
Subsidies and other transfers						
Agriculture	27	45	66.7	289	315	9.0
Foreign Affairs	108	174	61.1	766	821	7.2
Health	91	86	-5.5	560	587	4.8
Human Resources Development	141	159	12.8	979	866	-11.5
Indian and Northern Development	261	262	0.4	2,451	2,514	2.6
Industry and Regional Development	140	127	-9.3	761	737	-3.2
Veterans Affairs	114	117	2.6	795	805	1.3
Other	212	163	-23.1	1,195	1,147	-4.0
Total	1,094	1,133	3.6	7,796	7,792	-0.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	105	65	-38.1	505	485	-4.0
Canada Mortgage and Housing Corporation	135	150	11.1	1,002	1,045	4.3
Other	91	68	-25.3	581	594	2.2
Total	331	283	-14.5	2,088	2,124	1.7
Operating and capital expenditures						
Defence	866	797	-8.0	5,227	5,592	7.0
All other departmental expenditures	1,846	1,977	7.1	11,409	12,152	6.5
Total	2,712	2,774	2.3	16,636	17,744	6.7
Total direct program spending	4,137	4,190	1.3	26,520	27,660	4.3
Total program expenditures	8,498	8,622	1.5	57,329	59,137	3.2
Public debt charges	3,441	3,255	-5.4	23,899	23,803	-0.4
Total budgetary expenditures	11,939	11,877	-0.5	81,228	82,940	2.1
Memorandum item:						
Total transfers	5,455	5,565	2.0	38,605	39,269	1.7

Program spending increased by $1.8 billion, or 3.2 per cent, in the April to October 1999 period, compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset a decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed and timing factors. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government were up $0.5 billion, or 4.7 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by $1.1 billion, or 4.3 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were down slightly from year-earlier levels, reflecting a slight decline in the average effective interest rate on the stock of interest-bearing debt.

Year-to-date: financial surplus of $5.0 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $3.2 billion in the first seven months of 1999-2000, compared to a net requirement of $2.8 billion in the same period last year. This increase was more than accounted for by the payment to a third-party trust of the $3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of $5.0 billion in the April to October 1999 period, up slightly from that recorded in the same period last year.

Table 4
The budgetary balance and financial requirements/surplus

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-428	112	7,474	8,161
Loans, investments and advances				
Crown corporations	19	170	750	189
Other	-1	48	-437	-74
Total	18	218	313	115
Specified purpose accounts				
Canada Pension Plan Account	-447	-57	942	232
Superannuation accounts	319	464	2,211	2,777
Other	35	-29	54	-126
Total	-93	378	3,207	2,883
Other transactions	-452	444	-6,327	-6,170
Total non-budgetary transactions	-527	1,040	-2,807	-3,172
Financial requirements/surplus (excluding foreign exchange transactions)	-955	1,152	4,667	4,989
Foreign exchange transactions	-297	-1,039	5,538	-862
Net financial balance	-1,252	113	10,205	4,127

Table 5
Net financial balance and net borrowings

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-1,252	113	10,205	4,127
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,100	4,172	2,931	1,967
Canada Savings Bonds	-370	-30	-2,486	-1,045
Treasury bills	800	150	-25,600	-3,650
Other	377	-234	919	301
Subtotal	-2,293	4,058	-24,236	-2,427
Less: Government's holding of unmatured debt	34	26	567	359
Total	-2,259	4,084	-23,669	-2,068
Payable in foreign currencies				
Marketable bonds	511	–	4,388	-415
Notes and loans	–	–	–	–
Canada bills	-213	-301	1,822	-4,177
Canada notes	-21	–	-947	-256
Total	277	-301	5,263	-4,848
Net change in borrowings	-1,982	3,783	-18,406	-6,916
Change in cash balance	-3,234	3,896	-8,201	-2,789

Year-to-date: net financial surplus of $4.1 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $0.9 billion in the April to October 1999 period, compared to a net source of $5.5 billion in the same period last year.

With a budgetary surplus of $8.2 billion, a net requirement of $3.2 billion from non-budgetary transactions and a net requirement of $0.9 billion from foreign exchange transactions, there was a net financial surplus of $4.1 billion in the April to October 1999 period compared to a net surplus of $10.2 billion in the same period last year.

This net financial surplus of $4.1 billion, coupled with a drawdown in cash balances of $2.8 billion, was used to retire $6.9 billion of market debt to the end of October 1999. Cash balances at the end of October 1999 amounted to $6.5 billion.

Table 6
Condensed statement of assets and liabilities

	March 31, 1999	October 31, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	13,128	-11,381
Interest and matured debt	9,791	10,510	719
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	34,654	-10,662
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	125,185	2,778
Canada Pension Plan (net of securities)	5,427	5,659	232
Other pension and other accounts	6,724	6,597	-127
Total pension and other accounts	134,558	137,441	2,883
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	297,719	1,967
Treasury bills	96,950	93,300	-3,650
Canada Savings Bonds	27,662	26,976	-686
Other	4,063	4,364	301
Subtotal	424,427	422,359	-2,068
Payable in foreign currencies			
Marketable bonds	23,907	23,492	-415
Canada bills	10,230	6,053	-4,177
Canada notes	1,863	1,607	-256
Subtotal	36,000	31,152	-4,848
Total unmatured debt	460,427	453,511	-6,916
Total interest-bearing debt	594,985	590,952	-4,033
Total liabilities	640,301	625,606	-14,695
Assets			
Cash and accounts receivable	15,273	7,993	-7,280
Foreign exchange accounts	34,668	35,529	861
Loans, investments and advances (net of allowances)	13,536	13,421	-115
Total assets	63,477	56,943	-6,534
Accumulated deficit (net public debt)	576,824	568,663	-8,161

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December 1999

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for November 1999

Budgetary deficit of $292 million in November 1999

There was a budgetary deficit of $292 million in November 1999, compared to a surplus of $448 million in November 1998. Budgetary revenues were down $207 million (1.7 per cent), primarily reflecting lower employment insurance (EI) premium revenues and excise taxes and duties. Program spending was up $447 million (5.3 per cent), largely attributable to increased transfers to other levels of government and defence spending, while public debt charges increased $86 million (2.4 per cent), reflecting an increase in the stock of interest-bearing debt.

Within budgetary revenues:

- Personal income tax revenues were down 1.3 per cent. This was attributable to transfers to the Canada Pension Plan Account for underpayments relating to previous months and to corporate income tax revenues, due to a misallocation of revenues in previous months. Excluding these one-time factors, personal income tax revenues would have been higher, reflecting increases in the number of people employed.
- Corporate income tax revenues increased 23.3 per cent. However, most of this gain was attributable to a transfer from personal income taxes, as noted above.
- EI premium revenues were down 8.0 per cent, as a reduction in the premium rates (the employee rate for 1999 is $2.55 per $100 of insurable earnings compared to $2.70 in 1998) more than offset an increase in the number of people employed.
- Excise taxes and duties were down 8.1 per cent. Net goods and services tax (GST) revenues declined 5.4 per cent, reflecting an increase in refunds and rebates. Customs import duties declined by 9.9 per cent, following a year-over-year decline of 10.0 per cent in October 1999. Other excise taxes and duties were down 15.7 per cent, primarily attributable to the elimination of Air Transportation Tax.
- Non-tax revenues declined 25.8 per cent. This component is very volatile on a monthly basis, reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up 0.9 per cent. Elderly benefits advanced 3.2 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits declined 3.5 per cent, reflecting the continued improvement in labour market conditions.
- Major transfers to other levels of government were up 8.8 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.

Table 1
Summary statement of transactions

	November		April to November	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	12,526	12,319	101,229	103,420
Program spending	-8,481	-8,928	-65,810	-68,065
Operating surplus	4,045	3,391	35,419	35,355
Public debt charges	-3,597	-3,683	-27,496	-27,486
Budgetary balance (deficit/surplus)	448	-292	7,923	7,869
Non-budgetary transactions	2,281	2,328	-615	-844
Financial requirements/surplus (excluding foreign exchange transactions)	2,729	2,036	7,308	7,025
Foreign exchange transactions	-6,363	-3,320	-825	-4,183
Net financial balance	-3,634	-1,284	6,483	2,842
Net change in borrowings	3,339	6,362	-15,068	-555
Net change in cash balances	-295	5,078	-8,585	2,287

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Direct program spending increased by 6.9 per cent. Subsidies and other transfers were down 11.2 per cent, while payments to Crown corporations increased 15.8 per cent. The year-over-year changes in these components primarily reflect the timing of payments. Operating and capital expenditures increased by 15.0 per cent, primarily reflecting higher defence spending in meeting Canada's international peacekeeping commitments.

Year-to-date: budgetary surplus of $7.9 billion

Over the first eight months of fiscal year 1999-2000, the budgetary surplus was estimated at $7.9 billion, down $54 million from the surplus recorded in the same period of 1998-99. Based on previous years' experience, and including the impact of the tax relief measures announced in the February 1999 budget and the recently announced reduction in EI premium rates from $2.55 to $2.40 (employee rate per $100 of insurable earnings) effective January 1, 2000, the budgetary surplus should increase in December but then decline in the final quarter of the fiscal year. As indicated in *The Economic and Fiscal Update*, in the absence of any additional policy measures, the underlying budgetary balance, based on the average of the private sector forecasts, is estimated at $5.0 billion for the year as a whole. Of this amount, $3.0 billion is earmarked for the Contingency Reserve, which if not needed, will be used to pay down the public debt.

Budgetary revenues were up $2.2 billion, or 2.2 per cent, on a year-over-year basis, as higher personal income tax and GST revenues more than offset declines in most of the other major revenue components.

Table 2

Budgetary revenues

	November			April to November		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	5,958	5,878	-1.3	48,980	51,239	4.6
Corporate income tax	1,526	1,881	23.3	12,167	11,529	-5.2
Other income tax revenue	173	183	5.8	1,556	1,882	21.0
Total income tax	7,657	7,942	3.7	62,703	64,650	3.1
Employment insurance premium revenues	1,194	1,098	-8.0	12,938	12,332	-4.7
Excise taxes and duties						
Goods and services tax	2,222	2,101	-5.4	14,355	15,708	9.4
Customs import duties	172	155	-9.9	1,652	1,535	-7.1
Sales and excise taxes	719	606	-15.7	5,827	5,516	-5.3
Total excise taxes and duties	3,113	2,862	-8.1	21,834	22,759	4.2
Total tax revenues	11,964	11,902	-0.5	97,475	99,741	2.3
Non-tax revenues	562	417	-25.8	3,754	3,679	-2.0
Total budgetary revenues	12,526	12,319	-1.7	101,229	103,420	2.2

- Personal income tax collections were up $2.3 billion, or 4.6 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.
- Corporate income tax revenues were down $0.6 billion, or 5.2 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were down $0.6 billion, or 4.7 per cent, as the decline in EI premium rates and adjustments related to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased $0.9 billion, or 4.2 per cent. Net GST collections were up $1.4 billion, or 9.4 per cent, attributable to the strong gains in those goods and services subject to the GST. Customs import duties were down 7.1 per cent. Sales and excise taxes and duties were down 5.3 per cent, in part attributable to the elimination of the Air Transportation Tax, effective November 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down 2.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Table 3
Budgetary expenditures

	November			April to November		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,899	1,959	3.2	15,084	15,407	2.1
Employment insurance benefits	944	911	-3.5	7,054	6,880	-2.5
Total	2,843	2,870	0.9	22,138	22,287	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	8,333	8,333	0.0
Fiscal transfers	828	975	17.8	6,355	7,056	11.0
Alternative Payments for Standing Programs	-189	-188	-0.5	-1,494	-1,501	0.5
Total	1,681	1,829	8.8	13,194	13,888	5.3
Direct program spending						
Subsidies and other transfers						
Agriculture	106	119	12.3	394	434	10.2
Foreign Affairs	19	118	521.1	784	939	19.8
Health	91	64	-29.7	651	651	0.0
Human Resources Development	113	120	6.2	1,091	986	-9.6
Indian and Northern Development	272	269	-1.1	2,723	2,783	2.2
Industry and Regional Development	120	108	-10.0	881	844	-4.2
Veterans Affairs	115	116	0.9	910	921	1.2
Other	398	182	-54.3	1,593	1,330	-16.5
Total	1,234	1,096	-11.2	9,027	8,888	-1.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	80	0.0	585	565	-3.4
Canada Mortgage and Housing Corporation	143	150	4.9	1,145	1,195	4.4
Other	69	108	56.5	650	701	7.8
Total	292	338	15.8	2,380	2,461	3.4
Operating and capital expenditures						
Defence	748	1,031	37.8	5,975	6,624	10.9
All other departmental expenditures	1,683	1,764	4.8	13,096	13,917	6.3
Total	2,431	2,795	15.0	19,071	20,541	7.7
Total direct program spending	3,957	4,229	6.9	30,478	31,890	4.6
Total program expenditures	8,481	8,928	5.3	65,810	68,065	3.4
Public debt charges	3,597	3,683	2.4	27,496	27,486	0.0
Total budgetary expenditures	12,078	12,611	4.4	93,306	95,551	2.4
Memorandum item:						
Total transfers	5,758	5,795	0.6	44,359	45,063	1.6

Program spending increased by $2.3 billion, or 3.4 per cent, in the April to November 1999 period, compared to the same period of 1998.

- Major transfers to persons were up 0.7 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits reflected an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government were up $0.7 billion, or 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by $1.4 billion, or 4.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were virtually unchanged from year-earlier levels, as a slight decline in the average effective interest rate offset the impact of an increase in the stock of interest-bearing debt.

Year-to-date: financial surplus of $7.0 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $0.8 billion in the first eight months of 1999-2000, up slightly from the net requirement of $0.6 billion in the first eight months of 1998-99. As a result, there was a financial surplus (excluding foreign exchange transactions) of $7.0 billion in the April to November 1999 period, down slightly from the $7.3-billion surplus recorded in the same period of 1998.

Table 4

The budgetary balance and financial requirements/surplus

	November		April to November	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	448	-292	7,923	7,869
Loans, investments and advances				
Crown corporations	141	41	891	230
Other	-26	13	-463	-61
Total	115	54	428	169
Specified purpose accounts				
Canada Pension Plan Account	-593	463	349	695
Superannuation accounts	322	394	2,533	3,171
Other	-10	1	45	-124
Total	-281	858	2,927	3,742
Other transactions	2,447	1,416	-3,970	-4,755
Total non-budgetary transactions	2,281	2,328	-615	-844
Financial requirements/surplus (excluding foreign exchange transactions)	2,729	2,036	7,308	7,025
Foreign exchange transactions	-6,363	-3,320	-825	-4,183
Net financial balance	-3,634	-1,284	6,483	2,842

Table 5

Net financial balance and net borrowings

	November		April to November	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-3,634	-1,284	6,483	2,842
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-1,100	4,900	1,831	6,867
Canada Savings Bonds	290	364	-2,197	-681
Treasury bills	-500	-400	-26,100	-4,050
Other	362	-543	1,281	-242
Subtotal	-948	4,321	-25,185	1,894
Less: Government's holding of unmatured debt	-415	-397	151	-39
Total	-1,363	3,924	-25,034	1,855
Payable in foreign currencies				
Marketable bonds	4,838	2,942	9,226	2,527
Notes and loans	–	–	–	–
Canada bills	-136	-504	1,687	-4,681
Canada notes	–	–	-947	-256
Total	4,702	2,438	9,966	-2,410
Net change in borrowings	3,339	6,362	-15,068	-555
Change in cash balance	-295	5,078	-8,585	2,287

Year-to-date: net financial surplus of $2.8 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $4.2 billion in the April to November 1999 period, compared to a net requirement of $0.8 billion in the same period of 1998.

With a budgetary surplus of $7.9 billion, a net requirement of $0.8 billion from non-budgetary transactions and a net requirement of $4.2 billion from foreign exchange transactions, there was a net financial surplus of $2.8 billion in the April to November 1999 period, compared to a net surplus of $6.5 billion in the same period of 1998.

In November 1999, there was a net increase in market borrowings of $6.4 billion, with the result that there has been a retirement of only $0.6 billion of market debt to the end of November 1999. The increase in market borrowings in November was attributable to an increase in Canada's official international reserves, a buildup of cash to repay maturities in early December and the impact of precautionary measures related to end-of-year considerations. As a result, there was a net increase in cash balances of $2.3 billion, bringing cash balances at the end of November 1999 to $11.6 billion.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	November 30, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,202	-5,307
Interest and matured debt	9,791	5,075	-4,716
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	35,293	-10,023
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	125,579	3,172
Canada Pension Plan (net of securities)	5,427	6,122	695
Other pension and other accounts	6,724	6,598	-126
Total pension and other accounts	134,558	138,299	3,741
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,626	6,874
Treasury bills	96,950	92,900	-4,050
Canada Savings Bonds	27,662	26,935	-727
Other	4,063	3,821	-242
Subtotal	424,427	426,282	1,855
Payable in foreign currencies			
Marketable bonds	23,907	26,434	2,527
Canada bills	10,230	5,549	-4,681
Canada notes	1,863	1,607	-256
Subtotal	36,000	33,590	-2,410
Total unmatured debt	460,427	459,872	-555
Total interest-bearing debt	594,985	598,171	3,186
Total liabilities	640,301	633,464	-6,837
Assets			
Cash and accounts receivable	15,273	12,292	-2,981
Foreign exchange accounts	34,668	38,850	4,182
Loans, investments and advances (net of allowances)	13,536	13,367	-169
Total assets	63,477	64,509	1,032
Accumulated deficit (net public debt)	576,824	568,955	-7,869

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January 2000

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1999

Budgetary surplus of $3.1 billion in December 1999

There was a budgetary surplus of $3.1 billion in December 1999, up $0.6 billion from the surplus recorded in December 1998. As noted in last month's *Fiscal Monitor*, a large surplus was expected in December. Budgetary revenues are typically highest in the final month of each quarter, reflecting remittances from quarterly personal income tax filers. In addition, December marks the settlement period for corporations whose financial year ends on October 31, primarily financial institutions.

- Budgetary revenues were up $1.5 billion, or 10.3 per cent, primarily attributable to higher corporate income tax revenues, which were up $0.9 billion, or 54 per cent. Corporate profits rebounded strongly in 1999, following general weakness in 1998. Personal income tax revenues were up $0.3 billion, or 4.2 per cent, primarily reflecting increases in the number of people employed. Employment insurance (EI) premium revenues were lower due to the reduction in premium rates, while higher refunds depressed goods and services tax (GST) revenues.
- Program spending increased $1.1 billion, or 12.4 per cent, with most of the increase attributable to higher operating and capital expenditures.
- Public debt declined $0.2 billion, or 6.3 per cent, primarily reflecting adjustments pertaining to previous months.

Year-to-date: budgetary surplus of $10.9 billion

Over the first three quarters of fiscal year 1999-2000, the budgetary surplus was estimated at $10.9 billion, up $0.6 billion from the surplus recorded in the same period of 1998-99. Monthly deficits are expected in the final quarter of 1999-2000. Revenues are typically depressed in January due to the payment of the GST quarterly credit and refunds. Personal income tax refunds pertaining to the processing of 1999 tax returns will serve to depress revenues in March 2000. The impact of the tax relief measures announced in the February 1999 budget and the recently announced reduction in EI premium rates from $2.55 to $2.40 (employee rate per $100 of insurable earnings) effective January 1, 2000, will also dampen budgetary revenues in the final quarter of the year. In addition, the timing of revenues and spending at year end, including the impact of spending initiatives announced before the 2000 budget, will also serve to reduce the budgetary balance. These factors are expected to reduce the surplus to date by about $3.4 billion.

In addition to these factors, the policy initiatives proposed in the 2000 budget will reduce the reported surplus to date by an additional $4.5 billion. Allowing for the $3-billion Contingency Reserve results in a balanced budget. To the extent that the Contingency Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 2000*.

Table 1
Summary statement of transactions

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	14,782	16,299	116,011	119,719
Program spending	-8,789	-9,880	-74,599	-77,945
Operating surplus	5,993	6,419	41,412	41,774
Public debt charges	-3,562	-3,339	-31,058	-30,825
Budgetary balance (deficit/surplus)	2,431	3,080	10,354	10,949
Non-budgetary transactions	-2,668	-4,512	-3,283	-5,355
Financial requirements/surplus (excluding foreign exchange transactions)	-237	-1,432	7,071	5,594
Foreign exchange transactions	4,219	3,875	3,394	-308
Net financial balance	3,982	2,443	10,465	5,286
Net change in borrowings	3,446	-50	-11,623	-603
Net change in cash balances	7,428	2,393	-1,158	4,683

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Over the first nine months of 1999-2000, budgetary revenues were up $3.7 billion, or 3.2 per cent, on a year-over-year basis.

- Personal income tax revenues were up $2.6 billion, or 4.5 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds relating to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.
- Corporate income tax revenues were up $0.3 billion, or 2.0 per cent. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds relating to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000. The February 2000 budget projects a strong pickup in corporate income tax revenue over the final months of the fiscal year, as corporations file their settlement payments for taxation year 1999.
- EI premium revenues were down $0.7 billion, or 4.9 per cent, as the decline in EI premium rates and adjustments relating to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased $1.0 billion, or 4.1 per cent. Net GST collections were up $1.3 billion, or 8.0 per cent, due to the strong gains in those goods and services subject to the GST. However, the timing of refunds

Table 2

Budgetary revenues

	December			April to December		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	8,122	8,460	4.2	57,102	59,699	4.5
Corporate income tax	1,695	2,610	54.0	13,863	14,140	2.0
Other income tax revenue	165	291	76.4	1,721	2,173	26.3
Total income tax	9,982	11,361	13.8	72,686	76,012	4.6
Employment insurance premium revenues	1,055	980	-7.1	13,993	13,312	-4.9
Excise taxes and duties						
Goods and services tax	1,993	1,945	-2.4	16,348	17,653	8.0
Customs import duties	166	230	38.6	1,818	1,765	-2.9
Sales and excise taxes	595	665	11.8	6,420	6,182	-3.7
Total excise taxes and duties	2,754	2,840	3.1	24,586	25,600	4.1
Total tax revenues	13,791	15,181	10.1	111,265	114,924	3.3
Non-tax revenues	991	1,118	12.8	4,746	4,795	1.0
Total budgetary revenues	14,782	16,299	10.3	116,011	119,719	3.2

should depress revenues over the balance of the fiscal year. Customs import duties were down 2.9 per cent. Sales and excise taxes and duties declined 3.7 per cent, primarily attributable to the elimination of the Air Transportation Tax, effective November 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up 1.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by $3.3 billion, or 4.5 per cent, in the April to December 1999 period, compared to the same period of 1998.

- Major transfers to persons were up 0.7 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits reflected an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government were up $0.8 billion, or 5.7 per cent, reflecting much higher fiscal transfers, most notably for Equalization. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.

Table 3
Budgetary expenditures

	December			April to December		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,923	2,007	4.4	17,008	17,414	2.4
Employment insurance benefits	1,047	1,000	-4.5	8,101	7,880	-2.7
Total	2,970	3,007	1.2	25,109	25,294	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	9,375	9,375	0.0
Fiscal transfers	828	975	17.8	7,184	8,032	11.8
Alternative Payments for Standing Programs	-187	-188	0.5	-1,681	-1,688	0.4
Total	1,683	1,829	8.7	14,878	15,719	5.7
Direct program spending						
Subsidies and other transfers						
Agriculture	79	96	21.5	474	529	11.6
Foreign Affairs	203	113	-44.3	987	1,052	6.6
Health	69	167	142.0	720	818	13.6
Human Resources Development	288	165	-42.7	1,380	1,151	-16.6
Indian and Northern Development	285	326	14.4	3,007	3,109	3.4
Industry and Regional Development	173	214	23.7	1,055	1,058	0.3
Veterans Affairs	114	117	2.6	1,024	1,038	1.4
Other	58	192	231.0	1,651	1,522	-7.8
Total	1,269	1,390	9.5	10,298	10,277	-0.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	174	145	-16.7	759	710	-6.5
Canada Mortgage and Housing Corporation	165	150	-9.1	1,310	1,345	2.7
Other	83	102	22.9	733	804	9.7
Total	422	397	-5.9	2,802	2,859	2.0
Operating and capital expenditures						
Defence	879	1,278	45.4	6,853	7,902	15.3
All other departmental expenditures	1,566	1,979	26.4	14,659	15,894	8.4
Total	2,445	3,257	33.2	21,512	23,796	10.6
Total direct program spending	4,136	5,044	22.0	34,612	36,932	6.7
Total program expenditures	8,789	9,880	12.4	74,599	77,945	4.5
Public debt charges	3,562	3,339	-6.3	31,058	30,825	-0.8
Total budgetary expenditures	12,351	13,219	7.0	105,657	108,770	2.9
Memorandum item:						
Total transfers	5,922	6,226	5.1	50,285	51,290	2.0

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by $2.3 billion, or 6.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges declined 0.8 per cent from year-earlier levels, as a decline in the average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

Year-to-date: financial surplus of $5.6 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $5.4 billion in the first nine months of 1999-2000, up from the net requirement of $3.3 billion in the same period of 1998-99. The higher requirement was due to the payment to a third-party trust of the $3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of $5.6 billion in the April to December 1999 period, down from the $7.1-billion surplus recorded in the same period of 1998.

Year-to-date: net financial surplus of $5.3 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $0.3 billion in the April to December 1999 period, compared to a net source of $3.4 billion in the same period of 1998.

Table 4

The budgetary balance and financial requirements/surplus

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,431	3,080	10,354	10,949
Loans, investments and advances				
Crown corporations	204	77	1,095	308
Other	11	-42	-452	-105
Total	215	35	643	203
Specified purpose accounts				
Canada Pension Plan Account	-409	-684	-60	11
Superannuation accounts	427	512	2,959	3,683
Other	-37	19	8	-105
Total	-19	-153	2,907	3,589
Other transactions	-2,864	-4,394	-6,833	-9,147
Total non-budgetary transactions	-2,668	-4,512	-3,283	-5,355
Financial requirements/surplus (excluding foreign exchange transactions)	-237	-1,432	7,071	5,594
Foreign exchange transactions	4,219	3,875	3,394	-308
Net financial balance	3,982	2,443	10,465	5,286

Table 5

Net financial balance and net borrowings

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	3,982	2,443	10,465	5,286
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	4,141	82	5,972	6,949
Canada Savings Bonds	48	11	-2,149	-670
Treasury bills	900	550	-25,200	-3,500
Other	–	-93	1,281	-334
Subtotal	5,089	550	-20,096	2,445
Less: Government's holding of unmatured debt	-630	28	-479	-10
Total	4,459	578	-20,575	2,435
Payable in foreign currencies				
Marketable bonds	–	–	9,226	2,527
Notes and loans	–	–	–	–
Canada bills	-885	-628	801	-5,309
Canada notes	-128	–	-1,075	-256
Total	-1,013	-628	8,952	-3,038
Net change in borrowings	3,446	-50	-11,623	-603
Change in cash balance	7,428	2,393	-1,158	4,683

Table 6
Condensed statement of assets and liabilities

	March 31, 1999	December 31, 1999	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,396	-5,113
Interest and matured debt	9,791	6,858	-2,933
Allowances	11,016	11,316	300
Total accounts payable, accruals and allowances	45,316	37,570	-7,746
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	126,091	3,684
Canada Pension Plan (net of securities)	5,427	5,438	11
Other pension and other accounts	6,724	6,618	-106
Total pension and other accounts	134,558	138,147	3,589
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,709	6,957
Treasury bills	96,950	93,450	-3,500
Canada Savings Bonds	27,662	26,974	-688
Other	4,063	3,728	-335
Subtotal	424,427	426,861	2,434
Payable in foreign currencies			
Marketable bonds	23,907	26,434	2,527
Canada bills	10,230	4,921	-5,309
Canada notes	1,863	1,607	-256
Subtotal	36,000	32,962	-3,038
Total unmatured debt	460,427	459,823	-604
Total interest-bearing debt	594,985	597,970	2,985
Total liabilities	640,301	635,540	-4,761
Assets			
Cash and accounts receivable	15,273	21,358	6,085
Foreign exchange accounts	34,668	34,975	307
Loans, investments and advances (net of allowances)	13,536	13,332	-204
Total assets	63,477	69,665	6,188
Accumulated deficit (net public debt)	576,824	565,875	-10,949

Table 7
Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	(millions of dollars)							
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
Less:								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
GST penalties and interest received	19	71	90	129	135	159	127	123
Gains from wind-up of interest in Crown corporations/ disposal of shares	2	110			325			
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: *Public Accounts of Canada.*

With a budgetary surplus of $10.9 billion, a net requirement of $5.4 billion from non-budgetary transactions and a net requirement of $0.3 billion from foreign exchange transactions, there was a net financial surplus of $5.3 billion in the April to December 1999 period, compared to a net surplus of $10.5 billion in the same period of 1998.

With a financial surplus of $5.3 billion and a retirement of $0.6 billion of market debt to the end of December 1999, there was a net increase in cash balances of $4.7 billion to $14.0 billion. The buildup of cash reflected the impact of precautionary measures relating to end-of-year considerations.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the DSRA. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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